THE CHALLENGES OF FINANCING SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN THE ASHANTI REGION [A CASE STUDY OF STANBIC BANK (GH) LTD]

By

KNUST

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A Thesis submitted to the Institute Of Distance Learning, Kwame Nkrumah University of Science and Technology in partial fulfillment of the requirements for the degree of

COMMONWEALTH EXECUTIVE MASTERS OF BUSINESS ADMINISTRATION

APRIL 2012

DECLARATION

I hereby declare that this submission is my own work towards the Executive Masters of

Business Administration and that, to the best of my knowledge, it contains no material

previously published by another person nor material which has been accepted for the award of

any other degree of the University, except where due acknowledgement has been made in the

text.

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DEDICATION

This work is dedicated to my lovely wife – Cynthia Addobea Cofie, my parents, my siblings and my wonderful friends for their prayers and support in my education.

ACKNOWLEDGEMENTS
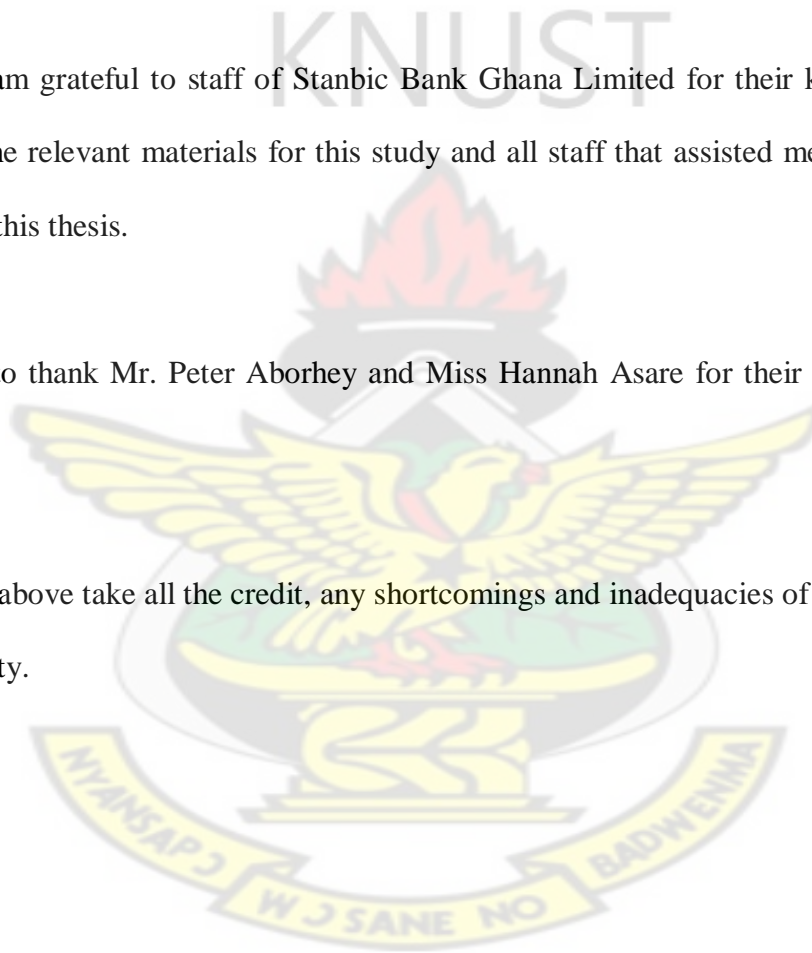
ABSTRACT

The main objective of the study is to evaluate the challenges and the extent of financing of SMEs within the Ashanti Region of Ghana, taking cognizance of the role and contributions of Stanbic Bank Ghana Limited. In most jurisdictions, commercial banks as a group are the main source of external finance for SMEs. However, there are number of rigidities of a macroeconomic, institutional and regulatory nature that may bias the entire banking system against lending to SMEs. The statement of the problem is that these commercial banks are most often unwilling to increase loan funding without an increase in the security given thereby leading to stagnation of growth and certain instances unable to expand to enjoy economies of scale necessary to serve their potential of being an engine of national growth and are thus collapsing.

The sources of materials for the study were both primary and secondary. Primary data were collected by the use of structured questionnaires which were designed and administered to SME customers and employees of the company alike. Stakeholders like SME customers, management executives and staff of Stanbic Bank were interviewed for input on this study.

Secondary materials were extracted from relevant textbooks, newspapers, reports/articles, journals, bulletins and documents presented by corporate financial analysts and policy planners.

The study showed that all the staff respondents have been on the SME Banking between the period of less than 2 years and four (4) years; majority having been with the Unit for three (3) years period. In view of the findings, it was recommended that banks should create a separate department for the SMEs; the establishment of a common fund by the government for SMEs; there should be a national policy on SMEs by the government in respect of funding among others in other to educate SMEs in the efficient and effective financial management of their businesses in order to sustain the SMEs to grow into much bigger industries in the near future.
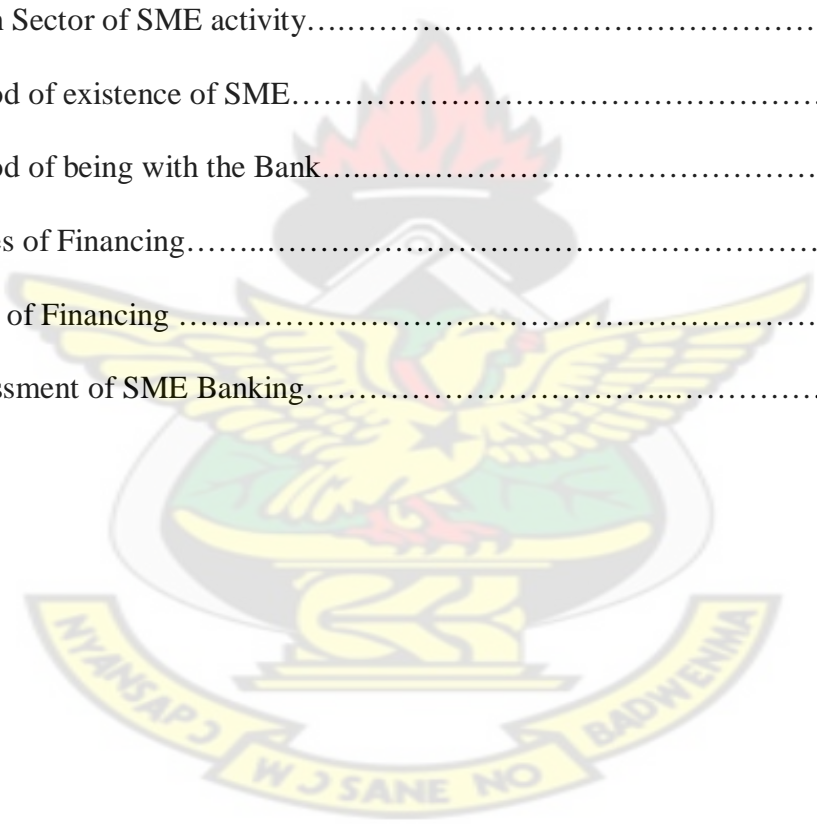
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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Cook and Nixson (2000) stressed that the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation. In accordance with an OECD (1997) report, SMEs produce about 25% of OECD exports and 35% of Asia's exports. SMEs represent over 90% of private business and contribute to more than 50% of employment and of GDP in most African countries (UNIDO, 1999). Small enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Steel and Webster, 1991; Aryeetey, 2001). SMEs are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana. SMEs therefore have a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in developing countries.

It is generally accepted that the broad goal of SME policy is to accelerate economic growth and in so doing alleviate poverty. While there are many developmental constraints on the SME sector, bridging the financing gap between SMEs and larger enterprises is considered critical to economic growth. To assess the effectiveness of schemes for promoting SME finance, an effective SME financing scheme should provide opportunities for SMEs to meet their financing needs and must maintain the profitability of the enterprise, or on the eventual sale of investments or collection of loans that would provide cash for later investments.

When SME sector does not have access to external funds for investment, the capacity to raise investment per worker, and thereby improve productivity and wages, is seriously impaired. The difficulties that SMEs experience can stem from several sources. The domestic financial market may contain an incomplete range of financial products and services. The lack of appropriate financing mechanisms could stem from a variety of reasons, such as regulatory rigidities or gaps in the legal framework. Moreover, development economists increasingly accept the proposition that, due to monitoring difficulties such as

Principal/agent problems (*e.g.* related to the shareholder-manager relationship) and asymmetric information, suppliers of finance may rationally choose to offer an array of financial services that leaves significant numbers of potential borrowers without access to credit. Such credit rationing is said to occur if: *i)* among loan applicants who appear to be identical, some receive credit while others do not; or *ii)* there are identifiable groups in the population that are unable to obtain credit at any price (OECD, 2006).

To evaluate the efficiency of schemes for promoting SME finance, an effectual SME financing scheme should provide opportunities for SMEs to meet their financing needs and must maintain the profitability of the enterprise, or on the eventual sale of investments or collection of loans that would provide cash for later investments. It is worth noting that among the resources needed for the production of goods and services, there are many things that set capital (finance) apart from the other inputs. Fixed Assets such as machinery and equipments, land and buildings, just to mention a few, provide benefits that derive from their physical characteristics. Unfortunately, the same thing cannot be said about the financial resources used to run a business. The acquisition of financial resources leads to contractual obligations. Small enterprises in developing countries typically, lack access to finance as an important constraint on their

operations. This lack of access is often associated with financial policies and bank practices that make it hard for banks to cover the high costs and risks involved in lending to small firms. The study therefore looks at the challenges of financing SMEs in Ashanti Region.

1.2   Statement of the Problem

In most jurisdictions, commercial banks as a group are the main source of external finance for SMEs. Therefore, it is essential that the banking system be prepared to extend credit to the SME sector. However, there are number of rigidities of a macroeconomic, institutional and regulatory nature that may bias the entire banking system against lending to SMEs (OECD, 2006).

According to Boapeah (1993) in the article entitled *"Developing Small-Scale Industries in Rural Regions: Business Behavior and Appropriate Promotion Strategies with Reference To Ahanta West District of Ghana"*, SMEs are entangled with myriad problems mitigating their growth in Ghana; notable among them are, lack of access to credit, competition from large-scale industries, the over liberalization of the economy and difficulty in accessing advisory services and research findings.

Parker et al (1995) indicated that credit constraints pertaining to working capital and raw materials as a major concern in the industry. Aryeetey et al (1994) reported that 38% of the SMEs surveyed mention credit as a constraint. This stems from the fact that SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity mostly from the formal financial institutions, particularly the commercial banks.   Banks are unwillingly to

support operations of SMEs due to varied problems. A common problem is the unwillingness of banks to increase loan funding without an increase in the security given; which the SME owners who most of the time are entrepreneurs and sole proprietors may be unable to provide. A particular problem of uncertainty relates to businesses with a low asset base. These are companies without substantial tangible assets which cannot be use as security for lenders. About 90% of small firms are refused loans when applied for from the formal financial intermediaries, due to inability to fulfill conditions such as collateral requirement (Bigsten et al., 1999).

The statement of the problem is that due to banks unwillingness to increase loan funding without an increase in the security given; which the SME owners who most of the time are entrepreneurs and sole proprietors may be unable to provide; thereby leading to stagnation of growth and certain instances unable to expand to enjoy economies of scale necessary to serve their potential of being an engine of national growth and are thus collapsing. Hence, most SMEs are resorting to sources of finance such as retained earnings, personal savings, borrowing from friends and relatives, supplier credit, borrowing from moneylenders at very high rates.

It is therefore opportune to assess the financing challenges being faced by SMEs in the Ashanti Region with specific reference to on the role and contributions of Stanbic Bank Ghana and to find appropriate and workable means of financing in the industry.

1.3   Research Objectives

The main purpose of the study is to evaluate the challenges and the extent of financing of SMEs within the Ashanti Region, taking cognizance of the role and contributions of Stanbic Bank Ghana Limited.

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The specific objectives of this study are:

1. To determine the positive and/or negative impact of financing on the business development of SMEs in Ashanti Region.

2. To verify the factors that influences the financing of SMEs by Stanbic Bank Ghana Limited.

3. To identify the barriers that commercial banks (Stanbic Bank Ghana Limited) face in the financing of SMEs.

4. To suggest how best to improve access of funds to SMEs by Stanbic Bank.

1.4   Research Questions

In order to attain the above stated objectives the study seeks to answer the following questions:

1. What is the positive and/or negative impact of financing on the business development of SMEs in Ghana?

2. What factors influence the financing of SMEs by Stanbic Bank?

3. What barriers do banks (Stanbic Bank) face in the financing of SMEs?

4. How best would access to financing to SMEs be improved?

1.5   Significance of the Study

The study is expected to impact on formal financial intermediaries to SMEs, especially the commercial banks, management of the SME industry, academia and the general public.

Academia

The outcome of this study is to augment the existing store of knowledge on the subject and serve as a catalyst for further research on innovative ways of financing SME to gain the requisite

competitive advantage for the overall academic well-being of the nation. It is useful as a source of reference to researchers, academics, students, policy makers, marketing professionals and other stakeholders interested in the financing challenges been faced by SMEs.

Management of Stanbic Bank

The study would help management and workers of Stanbic and other similar organizations in the banking industry to identify the current financing challenges of SMEs so as to meet their needs and expectations. The findings and results also provides a more reliable scientific measure and perspective for describing and evaluating the level of efficiency of the new system and its effects on corporate performance as well as customer satisfaction. It also serves as a source of information that brings to the fore the switching intentions of Stanbic's current and potential SME customers. Therefore providing the empirical support for management strategic decisions in several critical areas of their operations, and above all, provide a justifiably valid and reliable guide to designing workable service delivery improvement strategies for creating and delivering customer value, achieving customer satisfaction and loyalty, building long-term mutually beneficial relationship with profitable SME customers to achieve sustainable business growth in Ghana.

Regulators and Government

To policy makers like government agencies such as the Ministry of Trade and Industry, Venture Capital Fund and the Bank of Ghana, the findings and results of the study provides insights and a more reliable guide for monitoring the financing challenges of SMEs. It serves as a benchmark for measuring partly their respective policy goals and objectives. It serves as a tool for the Bank of Ghana and the Venture Capital Fund among other things to facilitate the availability of the needed finances for banks to provide quality service to SME

consumers and to ensure that their systems achieve the highest level of efficiency in the provision of financing; ensuring that the bank are responsive to SMEs, and ensure that their interest are protected.

Experts/Professional

This research is to bring to bear modern trends of SME financing for cost effectiveness in the chain and supply management industry; ensuring that the SME customer satisfaction is attained. It would also help SME managers/owners to implement the necessary structures to curtail the high incidence of bad costs through obsolesce and deterioration of stocks.

Other Stakeholders

To stakeholders like investors, shareholders, employees, pressure groups, etc., the study provides information for suggesting improvement in service delivery of the respective banks in Ghana.

1.6   Research Methodology

1.6.1   Data Collection

The sources of materials for the study were both primary and secondary. Primary data were collected by the use of structured questionnaires which were designed and administered to SME customers and employees of the company alike, for information on the general perception of SME financing by the commercial banks within the Ashanti Region. Scheduled Interviews were another medium through which primary data were obtained. Stakeholders like SME customers, management executives and staff of Stanbic Bank were interviewed for input on this study.

Secondary material were extracted from relevant textbooks, newspapers, reports/articles, journals, bulletins and documents presented by corporate financial analysts and policy planners.

1.6.2 Sample Design

The purposive simple random sampling method was used in attaining the sample size, by basically concentrating on Stanbic Bank, Adum Branch and its SME customers within the Ashanti Region for the study. Due to time and limited resources constraints, a proportion SME customers and staff were sampled for input for this work.

1.7 Scope of the Study

The study covers the SMEs of the Ghanaian economy, included food processing, bakery, wood products, furniture works, metal works, and auto and machinery works. The study was conducted within the framework of evaluating challenges of SME financing banks within the Ashanti Region, specifically looking at Stanbic Bank, Adum Branch. It is a case study approach of one particular bank (Stanbic Bank) and did not cover other formal financial intermediaries (commercial banks) to reflect the entire industry approach to financing SMEs. Hence, the result was not generalized but its findings would be placed in the relevant context of the individual company studied.

1.8 Limitation of the Study

The study is limited to the operations of SME customers of Stanbic Bank in the Ashanti Region. This location is chosen due to cost and time considerations and also because it is acknowledged that most SMEs are concentrated in the regional capital. This research have identified among others the following limitations were encountered:

- The unwillingness of management of both SMEs and Stanbic Bank to release information which should have enriched the study and also established a strong validity and reliability.

- Even though Stanbic Bank nationwide study would have been more appropriate, there are constraints of financial resources and unavailability of data as well as materials which will not make it possible to undertake nationwide study.

- Furthermore, it is very difficult to access certain information that may be useful for the research. In addition, the researcher has to combine academic work with his regular profession.

- Moreover, costs in terms of printing, photocopying, binding as well as opportunity cost would be incurred without the requisite bursary from government which would be provided at a much later date.

1.9   Organization of the Study

This study is in five chapters. Chapter one is the general introduction. It looks at the background to the study, the objectives of the study and the statement of the problem. It also briefly looks at the research questions, scope and limitations and organization of the study. Chapter two is the literature review. Literature is reviewed according to the research questions used in the study. The conceptual framework for the study is also outlined. Chapter three is the methodology. It explains the research design. It also gives details about the population, sample and sampling procedures used in the study. It explains the research instruments, methods of data collection, data analysis plan. Chapter four is the data presentation, analysis and discussion. Chapter five presents the summary, conclusions and recommendations for the study.

CHAPTER TWO

LITERATURE REVIEW

2.1   Introduction

This chapter is devoted to the review of literature. Literature has been reviewed on the definition of SMEs, the financial development and role of SMEs in the economic development of Ghana. The various products from Stanbic Bank for financing SMEs have been discussed.

2.2   The Definition and concept of SMEs

Abor and Quartey (2010) indicated that the issue of what constitutes a small or medium enterprise is a major concern in the literature. Different authors have usually given different definitions to this category of business. SMEs have indeed not been spared with the definition problem that is usually associated with concepts which have many components. The definition of firms by size varies among researchers. Some attempt to use the capital assets while others use skill of labour and turnover level. Others define SMEs in terms of their legal status and method of production. Storey (1994) tries to sum up the danger of using size to define the status of a firm by stating that in some sectors all firms may be regarded as small, whilst in other sectors there are possibly no firms which are small. The Bolton Committee (1971) first formulated an "economic" and "statistical" definition of a small firm. Under the "economic" definition, a firm is said to be small if it meets the following three criteria: it has a relatively small share of their market place; it is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure; and it is independent, in the sense of not forming part of a large enterprise.

Under the "statistical" definition, the Committee proposed the following criteria the size of the small firm sector and its contribution to GDP, employment, exports, etc.; the extent to which the small firm sector's economic contribution has changed over time; and applying the statistical definition in a cross-country comparison of the small firms' economic contribution.

The Bolton Committee applied different definitions of the small firm to different sectors.

Whereas firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be classified as small firm). Firms in the road transport industry are classified as small if they have 5 or fewer vehicles. There have been criticisms of the Bolton definitions. These centre mainly on the apparent inconsistencies between defining characteristics based on number of employees and those based on managerial approach.

The European Commission (EC) defined SMEs largely in term of the number of employees are firms with 0 to 9 employees - micro enterprises; 10 to 99 employees - small enterprises; and 100 to 499 employees - medium enterprises. Thus, the SME sector is comprised of enterprises (except agriculture, hunting, forestry and fishing) which employ less than 500 workers. In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria. Secondly, the use of 100 employees as the small firm's upper limit is more appropriate, given the increase in productivity over the last two decades (Storey, 1994).

Finally, the EC definition did not assume the SME group is homogenous; that is, the definition makes a distinction between micro, small, and medium-sized enterprises. However, the EC definition is too all-embracing to be applied to a number of countries. Researchers would have to

use definitions for small firms which are more appropriate to their particular "target" group (an operational definition). It must be emphasized that debates on definitions turn out to be sterile, unless size is a factor which influences performance. For instance, the relationship between size and performance matters when assessing the impact of a credit programme on a target group (Storey, 1994).

Weston and Copeland (1998) hold that definitions of size of enterprises suffer from a lack of universal applicability. In their view, this is because enterprises may be conceived of in varying terms. Size has been defined in different contexts, in terms of the number of employees, annual turnover, industry of enterprise, ownership of enterprise, and value of fixed assets.

Van der Wijst (1989) considers small and medium businesses as privately held firms with 1 – 9 and 10 – 99 people employed, respectively. Jordan *et al* (1998) define SMEs as firms with fewer than 100 employees and less than €15 million turnover. Michaelas *et al* (1999) consider small independent private limited companies with fewer than 200 employees and López and Aybar (2000) considered companies with sales below €15 million as small. According to the British Department of Trade and Industry, the best description of a small firm remains that used by the Bolton Committee in its 1971 Report on Small Firms. This stated that a small firm is an independent business, managed by its owner or part-owners and having a small market share (Department of Trade and Industry, 2001).

The UNIDO also defines SMEs in terms of number of employees by giving different classifications for industrialized and developing countries (Elaian, 1996). The definition for industrialized countries is given as follows: Large - firms with 500 or more workers; Medium - firms with 100-499 workers; and Small - firms with 99 or less workers.

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The classification given for developing countries is as follows: Large - firms with 100 or more workers; Medium - firms with 20-99 workers; Small - firms with 5-19 workers; and Micro - firms with less than 5 workers.

It is clear from the various definitions that there is not a general consensus over what constitutes an SME. Definitions vary across industries and also across countries. It is important now to examine definitions of SMEs given in the context of Ghana.

2.3   SME definition in the Ghanaian context

There have been various definitions given for small-scale enterprises in Ghana but the most commonly used criterion is the number of employees of the enterprise (Kayanula and Quartey, 2000). In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. In its Industrial Statistics, the Ghana Statistical Service (GSS) considers firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to 9 employees as SMEs (Kayanula and Quartey, 2000). The value of fixed assets in the firm has also been used as an alternative criterion for defining SMEs. However, the National Board for Small Scale Industries (NBSSI) in Ghana applies both the "fixed asset and number of employees" criteria. It defines a small-scale enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghanaian cedis. The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a 10 million Ghanaian cedis upper limit definition for plant and machinery. It is important to caution that the process of valuing fixed assets poses a problem. Secondly, the continuous depreciation of the local currency as

against major trading currencies often makes such definitions outdated (Kayanula and Quartey, 2000).

In Ghana, Steel and Webster (1991) and Osei *et al* (1993) used an employment cut-off point of 30 employees in the definition of small-scale enterprises in Ghana. Nevertheless, Osei *et al* (1993), classified small-scale enterprises into three categories, namely: micro - employing less than 6 people; very small - employing 6-9 people; and small - between 10 and 29 employees.

A more recent definition is the one given by the Regional Project on Enterprise Development Ghana manufacturing survey paper classified firms into: micro enterprise, less than 5 employees; small enterprise, 5 - 29 employees; medium enterprise, 30 – 99 employees; large enterprise, 100 and more employees (Teal, 2002).

2.4   Characteristics of SMEs in Developing Countries

Fisher and Reuber (2000) enumerate a number of characteristics of SMEs in developing countries under the broad headings: labour characteristics, sectors of activity, gender of owner and efficiency. Given that most SMEs are one-person businesses, the largest employment category is working proprietors. This group makes up more than half the SME workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices. SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995).

In terms of activity, they are mostly engaged in retailing, trading, or manufacturing (Fisher and Reuber, 2000). While it is a common perception that the majority of SMEs will fall into the first category, the proportion of SME activity that takes place in the retail sector varies considerably between countries, and between rural and urban regions within countries. Retailing is mostly found in urban regions, while manufacturing can be found in either rural or urban centers. However, the extent of involvement of a country in manufacturing will depend on a number of factors, including, availability of raw materials, taste and consumption patterns of domestic consumers, and the level of development of the export markets.

According to Kayanula and Quartey (2000), in Ghana, SMEs can be categorized into urban and rural enterprises. The former can be subdivided into "organized" and "unorganized" enterprises. The organized ones mostly have paid employees with a registered office, whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home, and employ few or in some cases no salaried workers They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops.

The major activities within this sector include:- soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smithing, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical-based products and mechanics (Osei *et al.*, 1993; Kayanula and Quartey, 2000).

Abor and Biekpe (2006) indicated that majority of SMEs are female-owned businesses, which more often than not are home-based compared to those owned by males; they are operated from home and are mostly not considered in official statistics. This clearly affects their chances of gaining access to financing schemes, since such programmes are designed without sufficient consideration of the needs of businesses owned by females. These female entrepreneurs often get the impression that they are not capable of taking advantage of these credit schemes, because the administrative costs associated with the schemes often outweigh the benefits. Prior empirical studies in Ghana have shown that female-owned SMEs often have difficulty accessing finance. Females are mostly involved in sole-proprietorship businesses which are mainly microenterprises and as such may lack the necessary collateral to qualify for loans.

Measures of enterprise efficiency (e.g. labour productivity or total factor productivity) vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as managerial skill and technology, and the effects of the policy environment. Most studies in developing countries indicate that the smallest firms are the least efficient, and there is some evidence that both small and large firms are relatively inefficient compared to medium-scale enterprises (Little *et al.*, 1987). It is often argued that SMEs are more innovative than larger firms. Many small firms bring innovations to the market place, but the contribution of innovations to productivity often takes time, and larger firms may have more resources to adopt and implement them (Acs *et al.*, 1999).

2.5   Contributions of SMEs to Economic Development

There is a general consensus that the performance of SMEs is important for both economic and social development of developing countries. From the economic perspective, SMEs provide a

number of benefits (Advani, 1997). SMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries.

SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula and Quartey, 2000). SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995). They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centers and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey, 2000).

SMEs contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. In Ghana and South Africa, SMEs represent a vast portion of

businesses. They represent about 92% of Ghanaian businesses and contribute about 70% to Ghana's GDP and over 80% to employment. SMEs also account for about 91% of the formal business entities in South Africa, contributing between 52% and 57% of GDP and providing about 61% of employment (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry *et al.*, 2002).

From an economic perspective, however, enterprises are not just suppliers, but also consumers; this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply-side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SMEs and their ability to stimulate the demand for both consumer and capital goods (Berry *et al.*, 2002).

2.6   General Constraints to SME Development

Despite the potential role of SMEs to accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey *et al*, 1994; Gockel and Akoena, 2002). The lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact

on SMEs. The lack of support services or their relatively higher unit cost can hamper SMEs' efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for SMEs. Besides, despite the numerous institutions providing training and advisory services, there is still a skills gap in the SME sector as a whole (Kayanula and Quartey, 2000). This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. In terms of technology, SMEs often have difficulties in gaining access to appropriate technologies and information on available techniques (Aryeetey *et al.*, 1994). In most cases, SMEs utilize foreign technology with a scarce percentage of shared ownership or leasing. They usually acquire foreign licenses, because local patents are difficult to obtain.

Regulatory constraints also pose serious challenges to SME development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm-level. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect SME operations. In the case of Ghana, the cumbersome procedure for registering and commencing business are key issues often cited. The World Bank Doing Business Report (2006) indicated that it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. Meanwhile, the absence of antitrust legislation favours larger firms, while the lack of protection for property rights limits SMEs' access to foreign technologies (Kayanula and Quartey, 2000).

Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However, their limited international marketing experience, poor quality control and product standardization, and little access to international partners, continue to impede SMEs expansion into international markets (Aryeetey *et al.*, 1994). They also lack the necessary information about foreign markets. One important problem that SMEs often face is access to capital (Lader, 1996). Lack of adequate financial resources places significant constraints on SMEs development. Cook and Nixson (2000) observe that, notwithstanding the recognition of the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker *et al.*, 1995). Levy (1993) also found that there is limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development. The role of finance has been viewed as a critical element for the development of SMEs (Cook and Nixson, 2000). A large portion of the SME sector does not have access to adequate and appropriate forms of credit and equity, or indeed to financial services more generally (Parker *et al.*, 1995). In competing for the corporate market, formal financial institutions have structured their products to serve the needs of large corporate.

A cursory analysis of survey and research results of SMEs in South Africa, for instance, reveals common reactions from SME owners interviewed. When asked what they perceive as constraints in their businesses and especially in establishing or expanding their businesses, they answered that access to funds is a major constraint. This is reflected in perception questions answered by SME owners in many surveys (see BEES, 1995; Graham and Quattara, 1996; Rwingema and

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Karungu, 1999). This situation is not different in the case of Ghana (see Sowa *et al.*, 1992; Aryeetey, 1998; Bigsten *et al.*, 2000, Abor and Biekpe 2006, 2007; Quartey, 2002). *A priori*, it might seem surprising that finance should be so important. Requirements such as identifying a product and a market, acquiring any necessary property rights or licenses, and keeping proper records are all in some sense more fundamental to running a small enterprise than is finance (Green *et al.,* 2002). Some studies have consequently shown that a large number of small enterprises fail because of non-financial reasons. Other constraints SMEs face include: lack of access to appropriate technology; the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training (see Sowa *et al.*, 1992; Aryeetey *et al.*, 1994**;** Parker *et al.*, 1995; Kayanula and Quartey, 2000). However, potential providers of finance, whether formal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness. Lack of funds may be the immediate reason for a business failing to start or to progress, even when the more fundamental reason lies elsewhere. Finance is said to be the "glue" that holds together all the diverse aspects involved in small business start-up and development (Green *et al.,* 2002).

2.7   The Financing Gap

According to Stiglitz and Weiss (1981) on a theoretical level, there is some controversy as to whether it is meaningful to speak of a "financing gap". Clearly, there can be such a gap if the authorities intervene in the market and maintain interest rates below the equilibrium rate, which would inevitably lead to excess demand for loanable funds. In the past, some analysts argued that it was not meaningful to speak of a funding gap unless the authorities actually kept interest rates

below market clearing levels. It was held that as risks rise, providers of financial resources would sufficiently increase interest rates charged to all borrowers to bring the supply and demand for credit into balance. Due to problems of asymmetric information and agency problems, banks have difficulties distinguishing good risks from bad risks and in monitoring borrowers once funds have been advanced. Moreover, banks will hesitate to use interest rate changes to compensate for risk in the belief that by driving out lower-risk borrowers, high interest rates may lead to a riskier loan portfolio, thus setting in motion a process of adverse credit selection.

Banks could maximize their return by setting an interest rate that left large numbers of potential borrowers without credit. In the Stiglitz-Weiss formulation, credit rationing is said to occur if i) among loan applicants who appear to be identical some receive credit while others do not; or ii) there are identifiable groups in the population that are unable to obtain credit at any price.

The distinctive challenges of SME finance

Any potential provider of external debt or equity finance will want to monitor the company to determine whether it is acting in accord with the initial contract, to follow the progression of the firm and to have the means to oblige the user of funds to respect the interests of the provider of funds. There are numerous reasons why doing this effectively is more problematic for SMEs than for larger firms. Hence, banks are more likely to engage in credit rationing (*i.e.* not extending the full amount of credit demanded, even when the borrower is willing to pay higher rates) to SMEs than to larger companies (Stiglitz and Weiss, 1981; Hoff and Stiglitz, 1999).

In the first place, the SME sector is characterized by wider variance of profitability and growth than larger enterprises. SMEs also exhibit greater year-to-year volatility in earnings. The survival

rate of SMEs is considerably lower than that of larger firms. Thus, one analyst found that manufacturing firms with fewer than 20 employees were five times more likely to fail in a given year than larger firms (Storey, 1995).

In the case of SMEs, it is very difficult to distinguish the financial situation of the firm from that of its owners. The use of company cars and home accommodations for both private and business purposes are clear cases in point. Furthermore, estate tax and intergenerational succession are important issues in SMEs but usually unimportant for larger companies.

Relations between the firm and its stakeholders are likely to reflect personal relationships to a much higher degree than in larger firms where such relationships are formalized. Whereas large firms are expected to observe recognized standards of corporate governance in which actors such as executives, auditors, and boards of directors are expected to conform to transparent norms, SMEs tend to reflect much more closely the personalities of their owners (Storey, 1995).

The linkage between SMEs and financial markets is looser than in the case of larger companies. SMEs often obtain funds from informal sources and, thus, may be less linked to trends in the formal fixed-income or equity markets. SMEs often use internally generated funds or loans from family and friends in "quasi-equity form". Funds from close acquaintances may be obtained at sub-market rates while borrowing from formal markets may be at rates higher than those available to larger companies.

Trade credit, *i.e.* credit supplied by non-financial entities, has always been an important component of SME finance and many analysts argue that the development of trade credit is an important element in assuring adequate finance for SMEs in emerging markets. There are also

potential principal/agent problems. The provider of credit will seek to require the borrower to act so as to maximize the probability that the loan is repaid, while the borrower may seek higher risk/higher return solutions. Once financing is received, the entrepreneur may be motivated to undertake excessively risky projects, since all of the upside of the project belongs to the entrepreneur, while the lender prefers a less risky project that increases the probability that the loan will be repaid. This problem, which is potentially present in all lending, is more serious for smaller firms than for larger firms because of the blurring of the line between the firm and the entrepreneur, and due to information asymmetries (Storey, 1995).

Asymmetric information is a more serious problem in SMEs than in larger firms. The entrepreneur has access to better information concerning the operation of the business and has considerable leeway in sharing such information with outsiders. However, the entrepreneur is also likely to have less training/experience in business than those in a larger company, although more adapted to operating in an uncertain environment. Hence, it may be difficult for the outside provider of financing to determine whether the entrepreneur is making erroneous decisions or for the outsider to understand the business adequately. In addition, the entrepreneur may have incentives to remain opaque, not only in dealings with financiers, but also with other outsiders such as regulators and tax authorities. The analysis of credit rationing is believed to provide special insights into problems of finance in developing and emerging markets. Thus, this argument has become part of the analysis generally applied to problems of finance in emerging markets (Storey, 1995).

Structural rigidities and distortions will worsen the funding gap

Storey (1995) argued in the preceding section that even in financial markets that have no distortion stemming from official intervention and major private monopolies, SMEs will often be more difficult to assess than established companies. Therefore, the possibility that large numbers of small firms will be excluded from the credit market, already present to some extent in a fully competitive and transparent market, becomes greater as market imperfections grow. This initial disadvantage of SMEs can worsen if the business environment and the financial system have certain characteristics.

1) **The domestic savings investment balance**.

Storey (1995) further showed that national savings may be at low levels and may result in a chronic insufficiency of domestic savings with respect to domestic investment or lead to excess demand for available domestic savings. In addition, government policy may favour industrialization and/or import substitutions, which effectively give large domestic firms, privileged access to finance. The hesitancy to lend to SMEs and the resulting credit rationing will become more acute in times of monetary stringency and disinflation.

2) **Legal, institutional and regulatory framework**.

Storey (1995) revealed that Banks will only seek to develop the SME market as a source of profit if the economic and business framework is calibrated to transmit reliable economic signals and the legal regulatory institutional setting enables banks to lend with confidence. The legal system should have a strong regime to protect property rights, including creditor rights and be relatively efficient in resolving cases of delinquent payments and bankruptcy. Additionally, the tax and

regulatory framework should encourage firms to operate in a transparent manner. If these conditions are absent, the tendency to exclude SMEs from lending will be more pronounced.

3) **Structure of the financial system**.

On a global level, a model of market-based bank governance has gained acceptance. Under this model, supervisors are expected to hold bank managers accountable for adequacy of earnings and for the prudential quality of their institutions while bank management and boards act to produce high returns to shareholders and maintain high prudential standards. This model has proven to produce significant efficiency gains. As this model is applied and as the business environment becomes more competitive, banks have strong incentives to find means to overcome the difficulties in SME lending. However some countries have been comparatively slow in implementing this model.

Emerging markets are particularly vulnerable to marginalization of SMEs

The analysis of credit rationing was believed to provide special insights into problems of finance in developing and emerging markets. SMEs and informal enterprises are the largest providers of output and jobs in the developing world. Although reliable data on the size of the SME sector are lacking, not least because of widespread informal activity, the World Bank estimates that SMEs and informal enterprises account for over 60% of GDP and over 70% of total employment in low-income countries, while they contribute over 95% of total employment and about 70% of GDP in middle-income countries (Ayyagari, Beck and Demirgüc-Kunt, 2003).

A large body of research documents the existence of a skewed firm size distribution: a small number of large firms co-exists (even within the same sector) with many micro and small

enterprises (Tybout, 2000; OECD, 2005). This 'missing middle' in the firm size distribution and the prominence of micro and small-sized enterprises would stem from a combination of cumbersome regulation – it never pays to be just large enough to attract enforcement – and structural characteristics related to a low level of development, such as underdeveloped markets, unsophisticated demand, and poor business environments.

Structural rigidities that create conditions under which large numbers of economically significant SMEs cannot obtain financing are more likely to be found in emerging markets than in more highly advanced economies. Emerging markets are more likely to have macroeconomic imbalances that lead to excess demand for available domestic savings as well as institutional weaknesses that encourage large numbers of individuals to engage in low productivity, informal activity. Furthermore, financial systems in emerging markets are often characterized by less deregulation, openness and reform of ownership governance and supervision. There are persuasive reasons to believe that when the institutional and financial framework is weak, SMEs will be adversely affected to a much larger degree than larger firms.

In many emerging markets, there is a clear trend for SMEs to shun the formal financial system and operate in the informal economy, aggravating their lack of access to financial markets. Schneider (2002) estimates that, in the average developing country, the informal economy accounts for 41% of official gross national income (GNI). In European OECD countries, the average is 18%. The ILO (2002) estimates that the informal workforce share of non-agricultural employment is as high as 78% in Africa, 57% in Latin America and the Caribbean, while it displays a high variation in Asia (between 45% and 85%) and much lower rates in OECD countries. This tendency to operate in informal markets frequently reflects both positive and

negative forces. For instance, the formal banking system may show little interest in lending to SMEs and hence there is little incentive for firms to produce credible accounts and operate transparently. When entrepreneurs perceive a lack of willingness on the part of financial institutions to deal with SMEs, one of the key incentives for firms to move into the formal economy will be absent. The small firm will have additional incentives to remain involved in the informal economy if more transparent operating and disclosure practices would expose the firm to more official scrutiny, tighter regulation and/or higher taxation. As a result, many entrepreneurs conclude that their interests are better served by remaining in the informal system.

A recent World Bank *Doing Business (1999)* report suggests that the burden of regulation in developing countries is considerably higher than in developed countries, and this may well be a cause for the unsatisfactory private sector performance and informality. While the avoidance of formal channels for finance may to some degree reflect excessive taxation or bureaucratic rigidity as well as the disinclination of banks to lend to SMEs, it may also reflect the lack of institutional capability on the part of the authorities to enforce laws and regulations. When the informal economy reaches a substantial size and the accepted practice becomes to avoid taxes and regulations, the authorities may confront a problem of enforcement and compliance with laws and regulations.

2.8   Role of Capital in Development of SMEs

The role of finance has been viewed as a critical element for the development of small and medium-sized enterprises. Previous studies have highlighted the limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development (Levy, 1993). Typically, smaller enterprises face higher

transaction costs than larger enterprises in obtaining credit (Saito & Villanueva, 1981). Insufficient funding has been made available to finance working capital (Peel & Wilson, 1996). Poor management and accounting practices have hampered the ability of smaller enterprises to raise finances. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. In spite of these claims however, some studies show a large number of small enterprises fail because of non-financial reasons (Liedholm, MacPherson & Chuta, 1994).

The case of Ghana shows that despite financial sector reform, the strengthening of banking capabilities and the introduction of numerous financial instruments, such as the stock exchange, a venture capital company and business assistance funds, access to institutional credit for working capital and equipment continued to be a major constraint to small enterprise development (Steel & Webster, 1992). Even where demand for small scale enterprise products appeared strong, a lack of credit meant that many small enterprises did not have the capacity to respond and expand production. Interest rates of 30% or more, high transactions costs and an administration and culture unfriendly to small scale enterprises contributed to the problem (Boeh & Ocansey, 1995). The Ghana study by Osei, et al., (1993) cites similar evidence; 95 per cent of the respondents depended solely on personal resources and loans from relatives and friends. Dawson's (1993) work in Ghana and Tanzania also confirms these findings; of the 672 small scale enterprises in the Ghana study, only two had received a bank loan. In Tanzania, the formal banking system was seen to be out of reach for almost all small enterprises. The World Bank reported that around 90 per cent of small enterprises surveyed indicated that access to credit was a major constraint to new investment (World Bank, 1994).

Small and medium enterprises (SMEs) make up the largest portion of the employment base in many developing countries and, indeed, are often the foundation of the local private sector. The entrepreneurs behind them could—and should—play a much larger role in development, but too often are held back by a lack of ready access to financing from local formal sector financial institutions.

From the above findings, it can be said that smaller firms as costly, high-risk credit units which, many commercial banks avoid lending to and concentrate instead on "safer" options such as financing larger local or multinational corporations, or holding high-yield government bonds. While understandable given current realities at many banks, this approach unfortunately dims the prospects for sustainable development by ignoring the necessity of a bottom-up capital formation — a key factor in the job creation necessary for reduction of poverty and income inequalities. Proven models of profitable small business banking do exist that can be transferred from country to country, scaled up over time, and then replicated more widely for considerable development impact (Rosen, 2008).

Almost all banks in the country have now established SME banking departments. Most notable ones are Barclays Bank, Merchant Bank, Standard Chartered Bank, Commercial Bank, Metropolitan Allied Bank, Unibank, Trust Bank, Agriculture Development Bank, Ecobank, SG-SSB and National Investment Bank among others. The Small and Medium Scale Enterprises (SME) Departments are specially structured to meet the banking needs of Small and Medium Scale businesses (Ghanaian Chronicle, 2006).

However, many non-financial constraints inhibit the success of such enterprises. SME owners are reluctant to be transparent or open up their businesses to outsiders. They seem to be unaware

of their obligations and responsibilities they have toward capital providers, and the need to acquire or seek support for technical services like accounting, management, marketing, strategy development and establishment of business linkages. Management and support services are perceived to be cost prohibitive and non-value adding (Mensah, 2004).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology used for the study. It explains the research design. It also gives details about the population, sample and sampling techniques and the research instruments used in collecting data for the study. It also discusses the data collection methods and data analysis plan.

3.2 Research Design

The research design of this project was a non-experimental or a survey, one which determined the perceived level of involvement of Stanbic Bank in the financing of SMEs in Ashanti Region. The researcher gathered extensive data from the owners and managers of SMEs who does business with Stanbic Bank. Staff of the Business Banking/SME Banking Unit of Stanbic Bank, Harper Road, Adum Kumasi, who manages these firms also provided information for the study. The researcher used a cross-sectional design to collect data on relevant variables, one time only, from a variety of people. To this end, questionnaire covering the objectives of the research was prepared and used to collect data from the owners or managers of all the sampled SMEs.

3.3 Sources of Data

Data collection means gathering information to address the critical questions that had been identified earlier in the study. Many methods available to gather information, and a wide variety of information sources were identified. The most important issue related to data collection is

selecting the most appropriate information or evidence to answer questions raised in the study (Brinkerhoff et *al.*, 1983; Archer, 1988; Leeds, 1992).

Primary data is data observed or collected directly from first-hand experience. This type of data is more accommodating as it shows latest information. Secondary data is data published and collected in the past. This type of data is available effortlessly, rapidly and inexpensively.

Data was collected from both primary and secondary sources. Primary data were captured through the use of questionnaires and personal interviews. Secondary data was collected using journals, textbooks, handbooks and manuals, review articles and editorials, literature review, informal discussions with experts, colleagues, seminars and conferences as well as published guides.

Data on the internet were located using search tools. The World Wide Web was searched for information. The convenience of the web and the extraordinary amount of information to be found on it are compelling reasons for using it as an information source (Cooper and Schindler, 2001). Search engines such as Yahoo (http://www.yahoo.com), Google (http://www.google.com) and MSN (http://www.msn.com) were used to access vast information on SMEs that assisted in the study.

3.3.1 Population

Before the main fieldwork, a pretest of the questionnaire and the interview schedule was conducted in some of the selected SMEs by the researcher. The main reason for this activity was to ensure that the questionnaire and interview schedules are meaningful, easily understood and appropriate for the main fieldwork. It also enabled the researcher and the field assistants to

become familiar with the interview schedules and the questionnaire and to prepare them for the main fieldwork. The population is the complete set of individuals (subjects), objects or events having common observable characteristics in which the researcher is interested (Agyedu et *al*., 1999). The targeted population of the study consisted of staff Business Banking/SME Banking of Stanbic Bank, Harper Road, Adum Kumasi and Owners/management of SMEs in the Ashanti Region. Owners, managers and workers who worked in SME, especially, food processing, bakery, wood products, furniture works, metal works, and machinery works were used as the population for the study. The estimated population is 350 made up of 50 staff and 300 SMEs.

3.3.2   Sample

In designing the research study, the researcher took into consideration the need to make inferences from the sample of the population in order to answer the research questions and also meet the research objectives. A sample size of 50 respondents of Stanbic Bank was used for the study made up of 10 managers and staff of the Bank and 40 owners of SMEs who has been dealing with the Bank. The managers and workers who worked in the following SMEs in the Kumasi metropolis: Five (5) managers of SME Banking of the Stanbic Bank, Kumasi and owners, managers and workers who worked in the following SMEs in the Kumasi metropolis: food processing, bakery, wood products, furniture works, metal works, and machinery works in the Kumasi metropolis.

Table 3.3.2: Guide: sample size and technique for selecting respondents

Target Group	Sample Method Required		
	Estimated Number	**Sample Selected**	**Technique used**
Staff of the Bank Managers and Ordinary Staff	50	10	Interviews and Questionnaire
Customers			
Business Owners of SMEs	300	40	Questionnaire
Total	**350**	**50**	

3.3.3   Sampling Technique

In order to get very accurate result for this study, people who were directly involved in the activities of the SMEs as far as financing and management of the businesses were concerned were thus selected. The purposive sampling method was used to select the sample from the population. This method is a non-random sampling where the researcher establishes a criterion devoid of randomness for selecting the sample. In the purposive sampling, the sample is chosen to suit the purposes of the study. This method was chosen because the sample was able to answer the questions and respond to the interviews as objectively as was possible.

3.3.4   Research Instruments

In view of the nature of the topic, it was realized that questionnaire would be the main and the most appropriate instrument to use. Questionnaires are an inexpensive way to gather data from a potentially large number of respondents.

The researcher gave a serious thought to the wording of individual questions. This was done to ensure that respondents answer objectively to the questions in the questionnaire.

The questions were in the open ended and closed or forced choice-format formats. In the open ended question, the respondents formulated their own answers. In closed format, respondents are forced to choose between several given options. The open ended format allowed exploration of the range of possible themes arising from an issue. It was used where a comprehensive range of alternative choices could not be compiled.

The closed or forced choice-format was easy and quick to fill in. It minimized discrimination against the less literate (in self administered questionnaire) or the less articulate (in interview questionnaire). It was easy to code, record, and analyze results quantitatively and easy to report results (Leung, 2001).

3.3.5   Administration of Questionnaire

Questionnaires sent out to respondents had a personalized covering letter explaining briefly the purpose of the survey, the importance of the respondents' participation, who is responsible for the survey, and a statement guaranteeing confidentiality. This cover letter also expressed thanks to the respondents at the end.

Questionnaires were self administered or read out by interviewers. Interview administered questionnaires were done face to face (Leung, 2001). The self administered questionnaires were cheap and easy to administer. It preserved confidentiality and was completed at the respondent's convenience. It was administered in a standard manner. The interview administered

questionnaires allowed participation by respondents who could not express themselves fluently in the English language and allowed clarification of ambiguity (Leung, 2001).

3.3.6 Piloting and Evaluation of Questionnaires

Given the complexity of designing a questionnaire, it is impossible even for the experts to get it right the first time round. The questionnaires were thus pre-tested - that is, piloted - on a small sample of people characteristic of those in the survey. The fieldwork lasted for a period of two weeks. The problem encountered each day was analyzed and resolved before going out the following day. For those owners or managers that could independently fill the questionnaire, it was handed to them and a follow up visit was made after two weeks for collection. For those who could not fill their questionnaire independently, the researcher adopted face-to-face interactions and interviews based on the format of the questionnaire.

Analysis of the responses and the interviewers' comments were used to improve the questionnaire. The pilot test was polished to improve the question order, filter questions, and layout. The respondents were given one month to fill out the questionnaires before their collection. This was done to give them ample time to respond to them. Repeated visits and phone calls though costly were made to the respondents, to ensure high return rate of questionnaires.

3.3.7 Interview Schedules

Interviews involve an interviewer asking one or more interviewees a set of questions which may be highly structured or unstructured; interviews are usually synchronous and are often face-to-face, but they do not have to be. The interviews were conducted with the respondents to get their

views on the challenges SMEs were facing in the administration and management of the business and the supports they were receiving from institutes to minimize those challenges or problems. The researcher used unstructured interviews for the SME relationship managers of the bank and structured interviews for the owners of SME businesses used for the study.

3.3.8 Structured Interviews

The structured interview, at its most formal may be considered as an oral presentation of a written questionnaire. The interviewer read out the questions and the persons being interviewed gave their responses; while other interaction was kept to a minimum. The structured interviews had a fixed number of questions and even the possible responses were restricted. The questions used in structured interviews are likely to be closed questions although this is not always the case. The structured interview is more efficient in terms of the time taken to collect the data and the degree of reliability and validity is greater than in the more unstructured interview formats.

The main disadvantages with a structured approach is that the data gathered lack the richness obtained by more open-ended interviews, and because the number of possible responses is often limited, participants may be forced into giving responses which do not reflect their true feelings about an issue. The structured interview schedules based on the modules of the questionnaire was very helpful in gathering the data from the owners or managers of SMEs who could not independently fill the questionnaire.

3.3.9 Unstructured Interviews

Unstructured interviews tend not to use prepared questionnaires or interview schedules; rather they have a number of themes or issues which they aim to explore. The questions asked are more

likely to be open-ended, with the participant providing responses in their own words. The respondent had more control over the conduct of the interview in that they were often allowed to discuss issues as they arose and not necessarily in an order predetermined by the interviewer. The result of this more open-ended approach was a richness of data which was unbiased by any interpretation which the interviewer may have placed on it. The main difficulties with unstructured interviews is that they are time consuming, and perhaps more importantly, the data collected from different respondents will obviously be different, and therefore not always comparable; this may raise issues of reliability and validity for data collected in this way.

3.4   Data Analysis

The raw data obtained from a study is useless unless it is transformed into information for the purpose of decision making (Emery and Couper, 2003). The data analysis involved reducing the raw data into a manageable size, developing summaries and applying statistical inferences. Consequently, the following steps were taken to analyze the data for the study. The data was edited to detect and correct, possible errors and omissions that were likely to occur, to ensure consistency across respondents.

The data was then coded to enable the respondents to be grouped into limited number of categories.   The Microsoft Excel software was used for this analysis. Data was presented in tabular form, graphical and narrative forms. In analyzing the data, descriptive statistical tools such as bar graph complemented with mean and standard deviations were used.

3.5 Limitations of the Methodology

The researcher recognized that the sampling from the target population might not be totally free from errors and as such, efforts were made to minimize such errors. The population of the study consists of Business Banking/SME staff of Stanbic Bank, Harper Road, Adum Kumasi and customer's of Stanbic Bank. Care must therefore be taken in generalizing findings.

Finally, it is pertinent to reiterate the limitations to the study which is beyond the control of the researcher in the area of questionnaire administration and retrieval. Concerted efforts were made to ensure better response and retrieval of questionnaires from the respondents.

3.6 Scope of the Study

The study mostly covers the period 2008 to 2010, as the time period is informed by the availability of data, as given by the bank, which is our main source of data, and is expected to be supplemented with some information from the beneficiaries of funds from the bank.

3.7 The Profile of Stanbic Bank SME Business

      History of Stanbic Bank (Ghana)

On November 2 1992 Standard Bank Investment Corporation (SBIC) acquired operations of ANZ Grindlays Bank (African arm of ANZ Grindlays Industrial Holdings (ANZ Holdings) a company registered in the UK). The acquisition included ANZ Grindlays' minority interest in banks in Nigeria (40%) and Ghana (30%). When, in 1993, SBIC changed the names of those banks acquired from ANZ Grindlays a year earlier, to Stanbic Bank with effect from 1 July 1993, Merchant Bank Ghana remained unchanged.

SBIC Africa Holdings Ltd disposed of its 30% shareholding in the Merchant Bank (Ghana) Ltd (MBG) from 31 May 1999. MBG, therefore, ceased to be an associate company of the Standard Bank Group and was to be treated like any other bank. Stanbic Bank applied to the Ghanaian authorities for permission to establish a new bank under their umbrella, called Stanbic Bank Ghana Ltd, which will offer full commercial and merchant banking services. Stanbic Bank Ghana Ltd opened for business in December 1999. The Bank offers a wide range of financial products and services in the following markets:

Personal Banking Products/Services

The Bank is committed to providing its customers with the security, convenience and value for money expected from an international bank with African roots. As such, Stanbic offers a range of products and services that enhances the customers' banking experience.

Business Banking Products/Services

Stanbic recognizes that as a Business Banking the customer leads a busy life. Through its comprehensive service offering Stanbic aims to simplify its customers' financial transactions so that the customer can spend more time on his/her business and less time on banking.

Corporate and Investment

Stanbic Bank's corporate structure ensures that it is able to provide customized products and services to both established customers as well as newer, entrepreneurial companies. By focusing on personalized solutions and ongoing financial product development, Stanbic is committed to delivering solutions that support its clients' success where it matters most.

A brief on Stanbic Bank Ghana Corporate Social Responsibility for year 2007/2008

In 2007, Stanbic Bank Ghana took a number of far reaching initiatives to serve the communities it does business in. As a bank it is committed to creating prosperity and giving back to community, the people of Ghana. To this end the bank supports activities that ensure that this goal is realized. They see it as a responsibility to assist in the total development of Ghana by not just providing financial services but also by providing critical social support to help the people of Ghana. Stanbic's social support has been in diverse forms. It cuts across project support, to sponsorship of projects and association with forward looking undertakings embarked on by individuals.

The areas covered include sports development, poverty relief, education, health, environmental protection among others. In 2007 out total social support was well over USD 212, 872.000. The bank provided one hundred thousand Ghana Cedis (about USD 100, 000) towards the organization of the Security Services Games popularly referred to as SESSA Games. Other sports disciplines supported include Golf tournaments, Hockey and keep fits clubs. Stanbic's support covers agriculture as evidenced by the sponsorship of the prize vehicle awarded to the first runner up at the 2007 National Farmers' Day Celebration; an amount of about USD 25, 000 was voted to cover the award. As a Bank which believes in Africa because, our roots are from Africa, our social responsibility has transcended local boundaries. Our support of aspects of last year's Africa Union meetings in Ghana is yet another example of this Pan African vision.

2008 CSR Key Projects

In 2008, our Social support has been tremendous with a combination of donations, sponsorship

associations, and on-air radio and TV news support. Top of the range has been the sponsorship and major partnership with the CAF Ghana Local Organizing Committee to organize the 23rd MTN Africa Cup of Nations Ghana 2008 Tournament. That support was phenomenal and Ghana Stanbic Bank played a key role in getting Standard Bank/Stanbic Africa well represented across the globe. Some key projects for the year 2008 include the following:

Education support:

Stanbic Bank Ghana recognizes the impact of education on the development of Ghana. Over the years, our Corporate Social Initiatives have covered education tremendously. In 2008 our investment in community based education funds and projects increased significantly. These funds often revolves around Traditional Councils and Traditional Rulers and are generally held in high repute because of the cushion and opportunity it offers to brilliant but needy students . Close to GHC21,500 has been committed on three such educational funds across the country. These educational funds share the common characteristics of having high recognition and high impact.

I. The Otumfuo Osei Tutu Educational Fund:

The Otumfuo Educational Fund was established after the current King of the Ashantis, Otumfuo Osei Tutu II was enthroned. The fund has contributed to the educational needs of many children and young people in the Ashanti Region of Ghana. The support ranges from primary education to high school and tertiary. Technical and vocational training are equally covered.

Stanbic Bank Ghana took a decision to contribute to this fund and an amount of Fifteen

Thousand Ghana Cedis (USD 15, 000.00) was voted to support the fund. A high powered delegation led by the Board Chairman of the Bank supported by Board Members and the Members of executive committee visited the Palace to formally introduce themselves to the overload of the kingdom and also presented the cheque for the amount.

This donation has been described as unique and it did trigger quite a number of assistance for the Fund. For Stanbic Bank Ghana, the visit and presentation have strengthened the Bank's ties with the Kingdom, which is very useful even as Stanbic Bank seeks to expand its branch network and operations in Kumasi, the second biggest city in Ghana.

II. Asogli State Educational Fund:

As part of the branch expansion programme, Stanbic Bank Ghana opened a branch in the Volta region of Ghana precisely in the Asogli State. The State has an Educational Fund also established by the King of the area to support underprivileged and less privileged but brilliant children in the Kingdom.

Once again two Board Members and the MD led the team do the donation. Four Thousand Nine Hundred US Dollars (GHC5, 000.00) was donated. The impact has been several folds. Apart from helping the Bank penetrate the capital town, Ho, easily, a number of children are going to benefit directly from this support.

III. Tettehga Educational Fund:

This fund has similar characteristics as the earlier funds we supported. The Ada area is reach in salt mining. This has not motivated quite a number of young people not to stay in the classroom

but rather go to mine salt. The traditional rulers are concerned about this trend and have therefore instituted this fund. A contribution of USD1,500 from Stanbic Bank has been regarded as one of the key contributions to supporting this noble initiative.

Health and wellness (HIV/AIDS)

Our key initiatives in the Health and Wellness space include community outreach missions by our Bridges of Hope Volunteers; financial support of Nine Thousand Pound Sterling to facilitate the purchase of an Ambulance and Blood Pressure Monitor for the National Cardiothoracic Centre and corporate assistance for the Special Educational Need, Counseling and Drama Therapy Centre (SENCDRAC).

I. Bridges of Hope in Ghana

Building on key lessons from the Standard Bank Group, Stanbic Bank Ghana rolled out and powered the training of staff who had volunteered to become peer educators in our HIV Awareness and Sensitization campaign. About thirty staff members took lessons in how to prevent the spread of the HIV. Right after their training, these Staff volunteers took their message into the heart of the community, visiting major shopping malls and markets in Accra and Kumasi (the two biggest cities in Ghana) to sensitize the public on the need for safe and healthy lifestyles.

Currently, these peer educators are the major change drivers in the Bank. Periodically, they lead discussions and easy chats often around the need for responsible sexual living. The peer educators project is fast catching on and more people are been trained to support the project.

II. Ambulance and blood pressure monitor for the National Cardiothoracic Centre

High Blood Pressure and Hypertension has stealthily taken over as the third most fatal ailments in Ghana. Virtually every one at Stanbic Bank can recall a family member, friend or a colleague who has laboured and struggled with either one or both of these conditions.

Spearheading Ghana's battle to contain high blood pressure and hypertension, together with other heart and heart related diseases, is the National Cardiothoracic Centre of the Korle Bu Teaching Hospital (Ghana's premier and largest hospital).

By reason of the cost of running the centre, its services are generally out of reach for the majority of the population especially the poor, vulnerable and marginalized. An approach was made recently to Stanbic Bank Ghana to support the purchase of an Ambulance and Blood Pressure Monitor for the Centre. Notwithstanding the cost of these equipments, Stanbic Bank Ghana saw the opportunity provided to become even more relevant to the community by helping to save the lives of many who would otherwise have had no or negligible medical care. An amount of Nine Thousand Pounds Sterling was requested and provided. Currently, the Centre is the only one in Ghana with the Blood Pressure Monitor (state-of-the-art version) equipped and lives are been saved each day.

III. Special Educational Need, Counseling and Drama Therapy Centre (SENCDRAC)

Special education needs and the training of mentally challenged children is an important but heavily under-resourced area of child education in Ghana. Having identified this massive gap in financing and in resources, Stanbic Bank Ghana in consultation with the authorities of the Special Educational Need, Counseling and Drama Therapy Centre (SENCDRAC) decided on a

programme of active and effective support for the Centre which specializes in the training and development of these young angels.

Stanbic Bank Ghana sponsored two tutors from the Special Educational Need, Counseling and Drama Therapy Centre (SENCDRAC) to a global training programme in South Africa

I. Day of care project

In February 2008 70 of our staff embarked on a mission to express love in a most caring and practical way to young children they barely knew. Stanbic Bank staff meandered their way through the back streets of Accra, across a number of alleys, before getting to a créche located in part of the city renowned for all the wrong reasons.

The Street Girls Aid créche at Kantamanto (located in the Capital City of Ghana, Accra) saw a literally invasion as 70 odd day time bankers rolled up their sleeves and changed into working gear in readiness to paint, sweep and tidy up the learning centre for these precious little ones who invariably had parents who could not be called adults by any stretch. The whole Valentine day was spent with the children. These are children of hawkers and other street mothers who have to go about their daily business and have no one to cater for or watch over these children.

Stanbic Bank Ghana powered the Kantamanto exercise in partnership with United Way Africa. Nets were cleaned, Walls painted, Floors swept, and food served. The kids had a jolly good time

"I'm really glad to be doing this on this day. You see people talk about Valentine and all negative thoughts come to mind. But see what we are doing here; it is very healthy and really fruitful," one volunteer said.

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Before leaving, the Stanbic Bank team donated items valued at Two Thousand Nine Hundred US Dollars (GHC 3, 000) to the Créche.

Farmer's Day donation

Farmers in Ghana are recognized by the state each year for their contribution to the development of the country and for feeding the nation. Last year Stanbic Bank Ghana supported the National Celebration by donating the prize for the first runner up National Best Farmer. This year, the support was in two folds. First, an amount of One Thousand and Nine Hundred Dollars (GHC 2, 000) was voted to support the celebration in Tema Metropolitan Area (near Accra, the capital city) where two of Stanbic Bank Ghana branches are located.

The second donation was towards the national celebration. This year, the sponsorship was towards the purchase of a Farmtrac Tractor and its accessories for the third placed National Best Farmer. 57-year old Maurice Dery, a retired Civil Servant from the Upper West Region picked the award. The value of the tractor was GHC 16, 000.00

Sports

Sports support has been one of the key channels for the year 2008. Support has gone to almost every discipline. Here is an outline of some key events.

- **Ghana Golf Open 2008:** We were the sole sponsors of Ghana's foremost Golf Tournament, The Ghana Golf Open Tournament, supporting it with some Twenty thousand US Dollars. The three day tournament attracted some 200 Amateur Golfers and about 30 Professionals took part in the tournament

- **Stanbic Invitational Open:** About thirty thousand dollars was invested in this tournament held at the Achimota Golf Course. About 160 amateur golfers, mainly the bank's customers participated in the tournament. The Hole in One prize was a 50,000-dollar Grand Cherokee Jeep. No one won it.

- **Ghana Hockey Championship:** Stanbic Bank Ghana was the lead sponsors for the 2008 Ghana Hockey Championship which attracted some 16 hockey teams. The total sponsorship package amounted to USD 10, 000.00

Ghana's Team to the 2008 Beijing Olympics: Stanbic Bank Ghana voted US 15, 000.00 to support the Ghana's contingent to the Beijing Olympic Games

Business Banking/SME

Business Banking from Stanbic Bank is a comprehensive service offering for business owners. We recognise that as a Business Banking customer you lead a busy life. Through our offering we aim to simplify your financial transactions so you can spend more time on your business and less time on your banking.

Every business is unique and needs its own combination of banking services. Whether you are starting or growing your business, we have the solutions to meet your needs. We offer you a team of business bankers and business managers who, backed by a global network, are committed to supporting the success of your business. These business bankers and managers can offer you the guidance and expertise you need.

The Standard Bank group delivers services across Africa and extends to the key financial centers

of Europe, the United States and Asia. Through a network that spans 37 countries, Business

Banking aligns the resources of this integrated global financial services group in order to share

our expertise with you.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1   Introduction

The chapter presents the data gathered from the field. The data were represented by graphs, charts and tables. Data were also presented in relation to the literature review and compared to the data collected from the field.

4.2   Demographic Coverage of Respondents

The researcher selected the sample based on targeted units using the non-probability sampling method of random sampling, specifically the purposive sampling technique. This method ensured that representative samples of all the known elements of the population were covered in the sample.

A sample size of fifty (50), comprising ten (10) staff (representing 20%) and forty (40) customers (representing 80%) who are basically SME managers and owners of the targeted population responded to the administered questionnaire. Details are shown in Table 4.2 and picturesquely represented by Figure 4.2.1.

Table 4.2: Respondents Distribution

Details	Male		Female		Total	
	Frequency	Percent (%)	Frequency	Percent (%)	Count	Percent (%)
Staff	6	12.00%	4	8.00%	**10**	**20.00%**
Customers	22	44.00%	18	36.00%	**40**	**80.00%**
Total	**28**	**56.00%**	**22**	**44.00%**	**50**	**100.00%**

Source: Field Survey, December 2011

Figure 4.2.1: Respondents Distribution
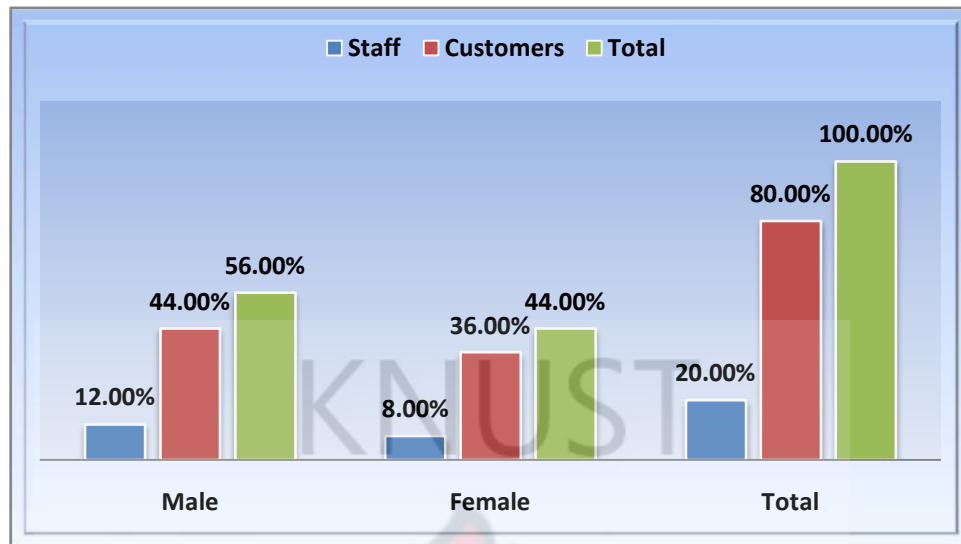
Source: Field Survey, December 2011

The research revealed an overall ratio of 1:0.8 with regard to male and female distribution in terms of gender representation as demonstrated in Figures 4.2.1. The ratio is an indication of almost equal representation of both genders, thereby implying that even though the male dominated the respondents, there was a strong show of the female.

Figure 4.2.2: Gender Ratio
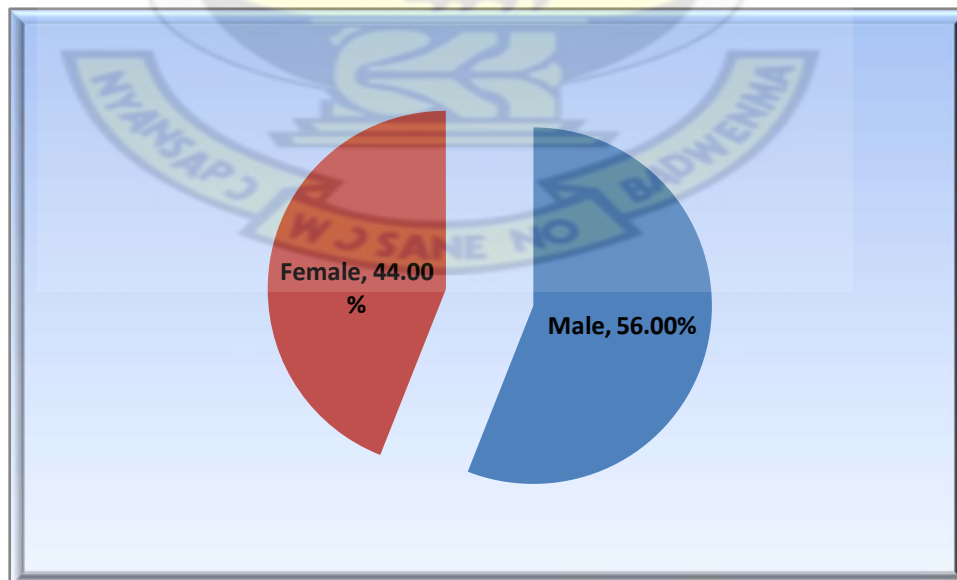
Source: Field Survey, December 2011

4.3   Educational Level of SME owners/managers

The study revealed that all the respondents are well educated with the least holding a GCE 'O' & 'A' level certificate. Majority (45%) of the respondents have attained Bachelors degree; 42% were GCE 'O' & 'A' level/SSSCE holders and the remaining 13% HND. None of them held a Masters Degree certificate. Figure 4.3 shows details.

Figure 4.3: Educational Level of SME owners/managers
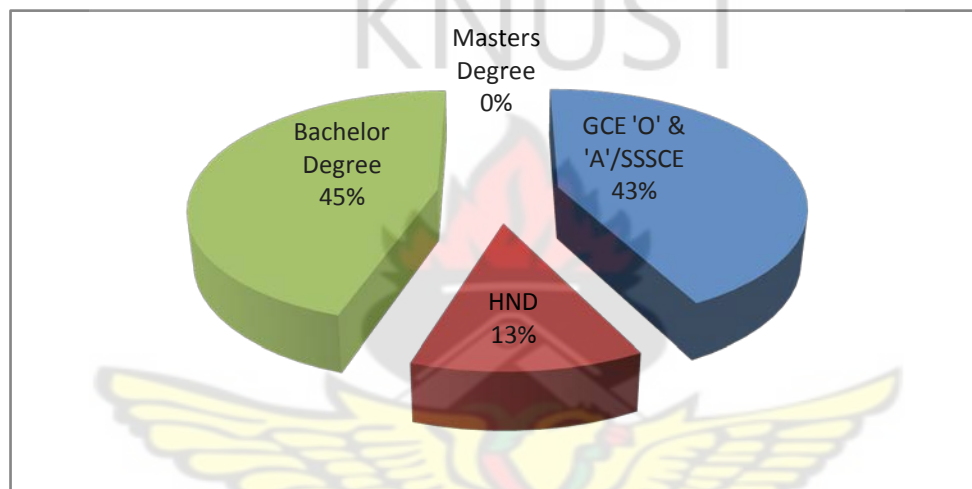
Source: Field Survey, December 2011

4.4   Analysis of Responses of Stanbic Bank Staff

4.4.1   SME Banking Period

The study showed that all the staff respondents have been on the SME Banking between the period of less than 2 years and four (4) years with the three (3) years class attaining the highest response of 60 percent. Nevertheless, the 'less than 2 years' class was the next on the echelon, recording 30 percent; there was no representation for 5 years and 'over 5 years, athough the 4 years class attained 10 percent. It could be deduced that Stanbic probably by policy does not permit an official stay on one schedule for that four years.

Figure 4.4.1: SME Banking Period
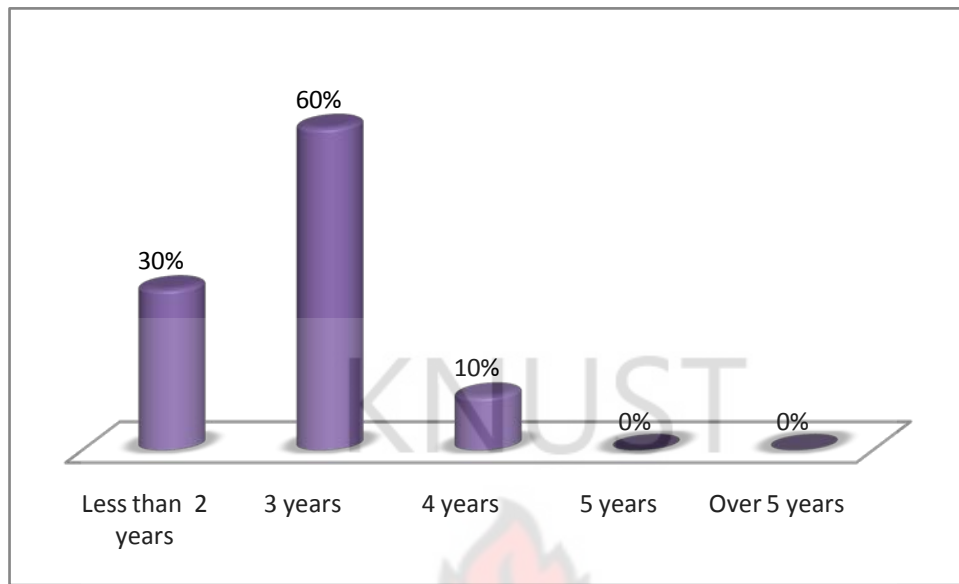
Source: Field Survey, December 2011

4.4.2 Financial Services offered to SME customers

The study identified five main financial services rendered to SMEs; include Overdraft, Trade Credit, SME Banking, Cash Management, and Business Advice. It was discovered that the financial services mostly offered to SME managers and owners by Stanbic Bank, Harper Road Branch, Adum were Business Advice and SME Banking; evidenced by the 30 percent each representation recorded in the afore mentioned services, illustrated in Table 4.4.2 and graphically represented by Figure 4.4.2. Cash Management also featured strongly as next most patronized services offered by the bank, as shown by the 20 percent representation; while overdraft and trade credit were the least rendered, evidence by the 10 percent representation each.

Table 4.4.2: Financial Services offered to SME customers

Services	Frequency	Percent (%)
Overdraft	1	10%
Trade Credit	1	10%
SME Banking	3	30%
Cash Management	2	20%
Business Advice	3	30%
Total	10	100%

Source: Field Survey, December 2011

Figure 4.4.2: Financial Services offered to SME customers
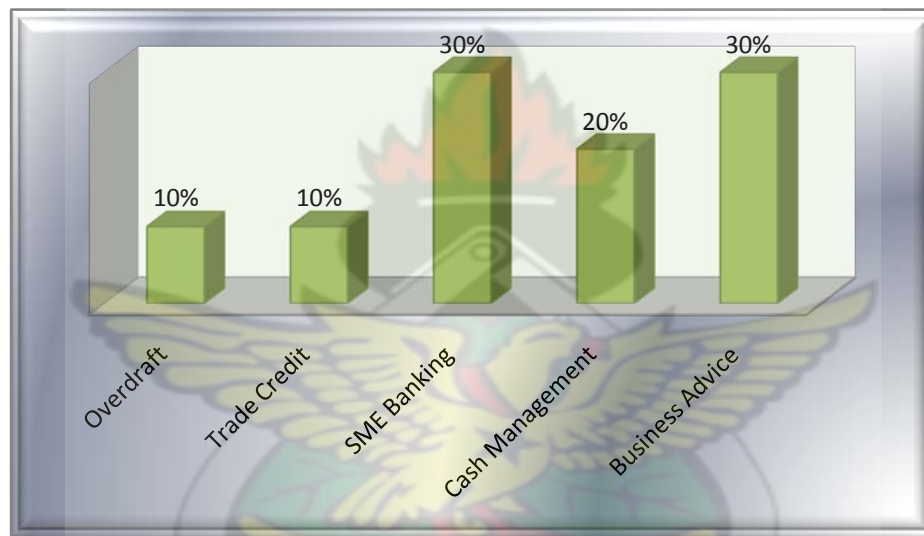
Source: Field Survey, December 2011

4.4.3 Relationship ratings with SME

The research indicated that the relationship between the bankers and their respective SMEs is generally very good, supported by the 40 percent showings; followed closely 'Good', registering 30 percent and 20 percent believed it was 'excellent'. Conversely, 10 percent insisted that it was poor, and therefore more needed to be done. Details are shown in Table 4.4.3 and Figure 4.4.3 below.

Table 4.4.3: Relationship ratings with SME

Rating	Frequency	Percent (%)
Excellent	2	20%
Very Good	4	40%
Good	3	30%
Poor	1	10%
Total	**10**	**100%**

Source: Field Survey, December 2011

Figure 4.4.3: Relationship ratings with SME
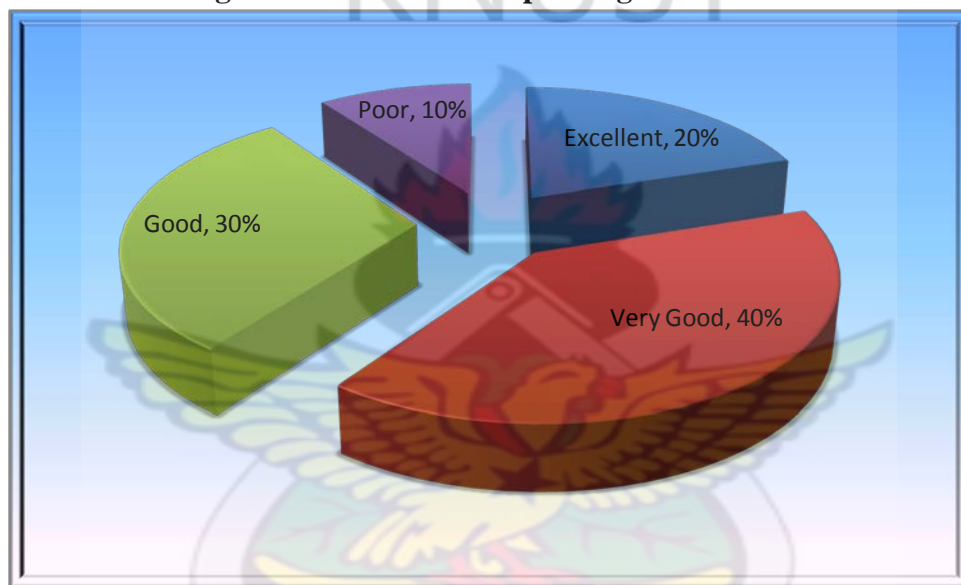
Source: Field Survey, December 2011

4.4.4   Conditions for extending credit facilities

The study identified six major conditions or criteria considered when the bank is extending credit to SME customers. These conditions are 'years of existence', 'past and projected cash flow', 'credit history', ' lines of business', 'collateral' and business location.

Table 4.4.4: Credit criteria to qualify SME

Criteria	Frequency	Percent (%)
Years of existence	1	10%
Cash Flows	1	10%
Credit history	3	30%
Line of business	2	20%
Collateral	2	20%
Business location	1	10%
Total	**10**	**100%**

Source: Field Survey, December 2011

Figure 4.4.4: Credit criteria to qualify SME
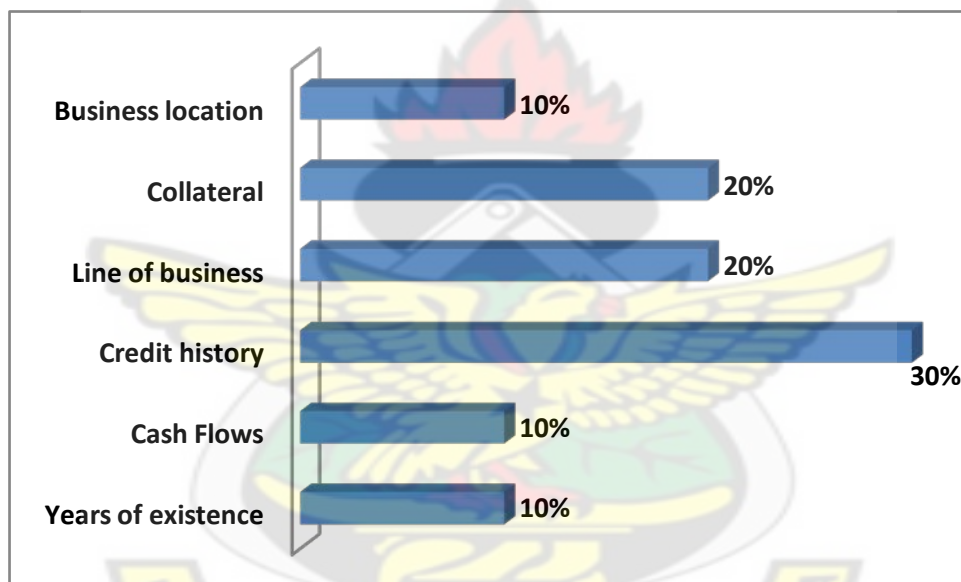
Source: Field Survey, December 2011

Out of all the afore mentioned criteria Stanbic Bank, Adum branch uses as benchmark for assessing the credibility of SMEs, credit history stood tall among the rest with 30 percent; closely followed by collateral and line of business, each of which registered 20 percent while the rest attained just 10 percent each.

4.4.5 Major challenges of SME Banking

The study recognized three (3) major challenges (management, high default rate and monitoring) that militate against the SME Banking Unit of Stanbic Bank, Harper Road, Adum branch. As indicated in Table 4.4.5 and picturesquely represented by Figure 4.4.5, High default rate on the part of SMEs has been that bane for the SME Banking Unit of the selected branch.

Table 4.4.5: Major Challenges of SME Banking

Challenges	Frequency	Percent (%)
Management	2	20%
High default rate	6	60%
Monitoring	2	20%
Total	**10**	**100%**

Source: Field Survey, December 2011

Figure 4.4.5: Major Challenges of SME Banking
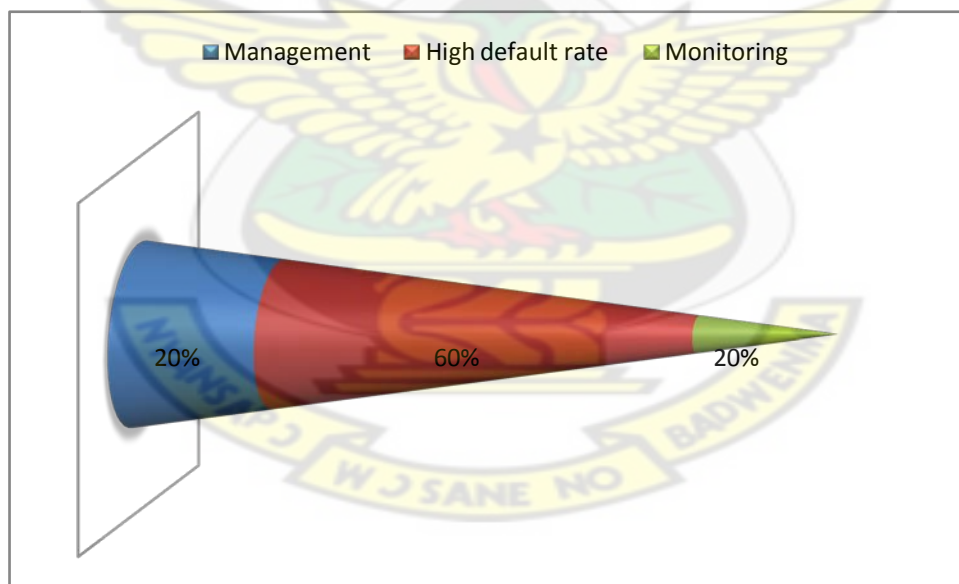
Source: Field Survey, December 2011

4.4.6 Major SMEs financed

The five (5) major SMEs that Stanbic Bank, Adum branch has single-handedly extended assistance from their respective start-up stage to the current state are: Ress Motors; Ekoba Gyasi Co. Ltd.; Cicero Hotel; Jobost Ent., and Miklin Hotel.

4.4.7 Other assistance aside finance to SMEs

It was discovered that apart from the provision of financial assistance to the SMEs, the bank rendered services which could generally be classified as below:

- business and financial consultancy

- customer relationship management

4.5 Analysis of Responses of SME owners and managers

4.5.1 Main sector of SME activity

Six main industry from which SME financed by Stanbic Bank are operating from were noticed by the researcher. They are Food processing, bakery, wood products, furniture works, metal works and machinery works. The study showed that Food processing sector has the modal class of 23 percent; followed by furniture works, which recorded 20 percent; the rest attained 15 percent representation each and the least being metal works (13 percent).

Table 4.5.1: Main Sector of SME activity

Industry	Count	Percent (%)
Food	9	23%
Bakery	6	15%
Wood products	6	15%
Furniture works	8	20%
Metal works	5	13%
Machinery works	6	15%
Total	**40**	**100%**

Source: Field Survey, December 2011

The research further showed a split of 50 percent each of SMEs registered with the Registrar General and the other 50 percent unregistered business operators. For those registered, majority (60 percent) did so as sole proprietor, 35 percent for private ltd and 5 percent chose private partnership as illustrated by Figure 4.5.1 below.

Figure 4.5.1: Registered SMEs
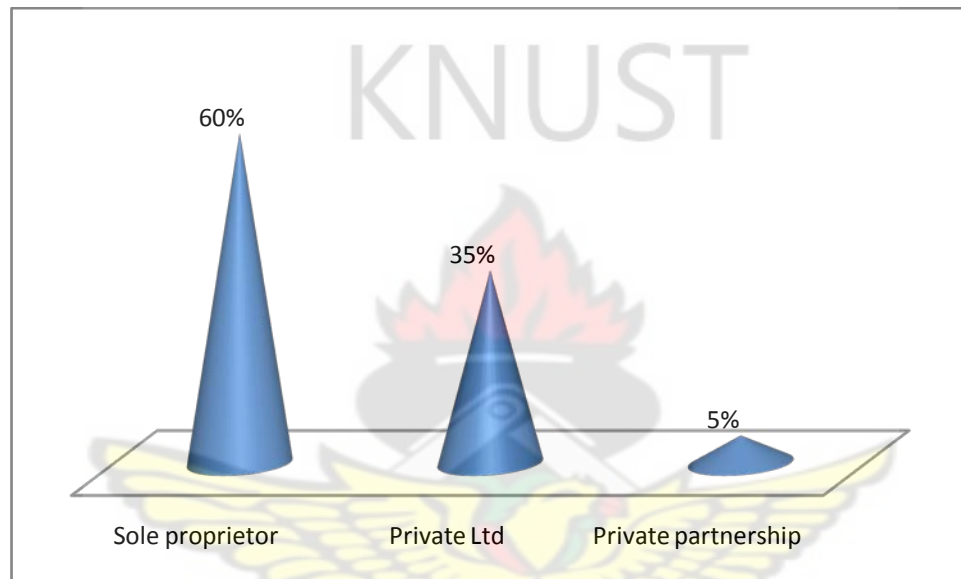
Source: Field Survey, December 2011

4.5.2   Period of existence of SME

On the issue of the period of existence of SMEs it came out that majority (58 percent) have been operating between the period of 6 and 10 years in their respective sectors. Again, it was noticed that 25 percent of respondents had been operating between 3 and 5 years; 18 percent over 11years and none was found to be less than two years.

Table 4.5.2: Period of existence of SME

Period	Frequency	Percent (%)
Less than 2 years	0	0%
3 - 5 years	10	25%
6 - 10 years	23	58%
11+ years	7	18%
Total	40	100%

Source: Field Survey, December 2011

Figure 4.5.2: Period of existence of SME
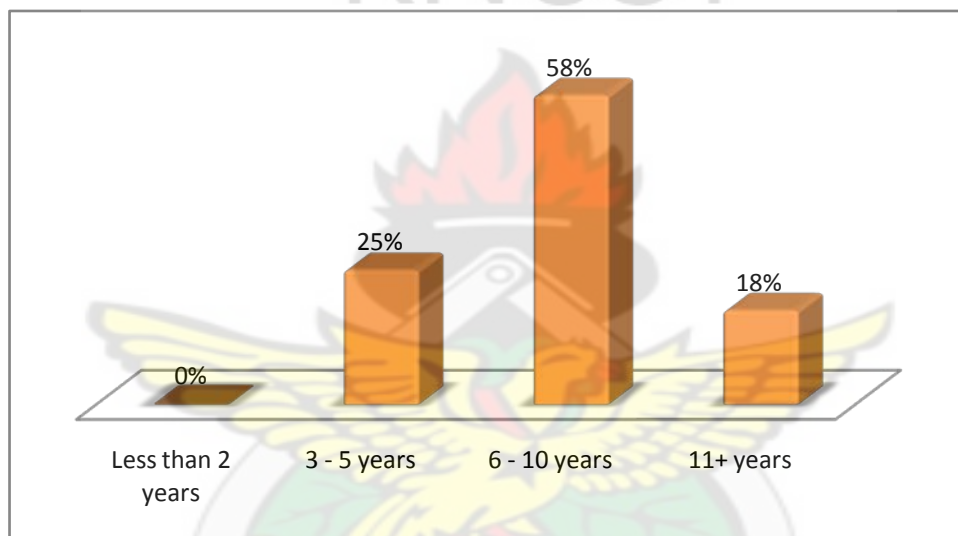
Source: Field Survey, December 2011

It could be deduced that by the number of years operation, at least above three years, SMEs are in the best position to give an account of the financial challenges the industry faces.

4.5.3 Period of doing business with the bank

The study indicated that all the respondents have been doing business with Stanbic Bank for more than 4 years; 40 percent have had the bank for a period of 7 to 9 years; 10 -12 years recorded 22.5 percent; 4 to 6 years attained 20 percent and 13 years plus registered 17.5 percent. Table 4.5.3 and Figure 4.5.3 provide details. This is an indication that all the (business owners

and managers) respondents have a clear assessment of the challenges facing SMEs and would be in the position to address issues raised in that area.

Table 4.5.3: Period of being with the bank

Period	Frequency	Percent (%)
Less than 3 years	0	0%
4- 6 years	8	20.0%
7 - 9 years	16	40.0%
10 - 12 years	9	22.5%
13+ years	7	17.5%
Total	**40**	**100.0%**

Source: Field Survey, December 2011

Figure 4.5.3: Period of being with the bank
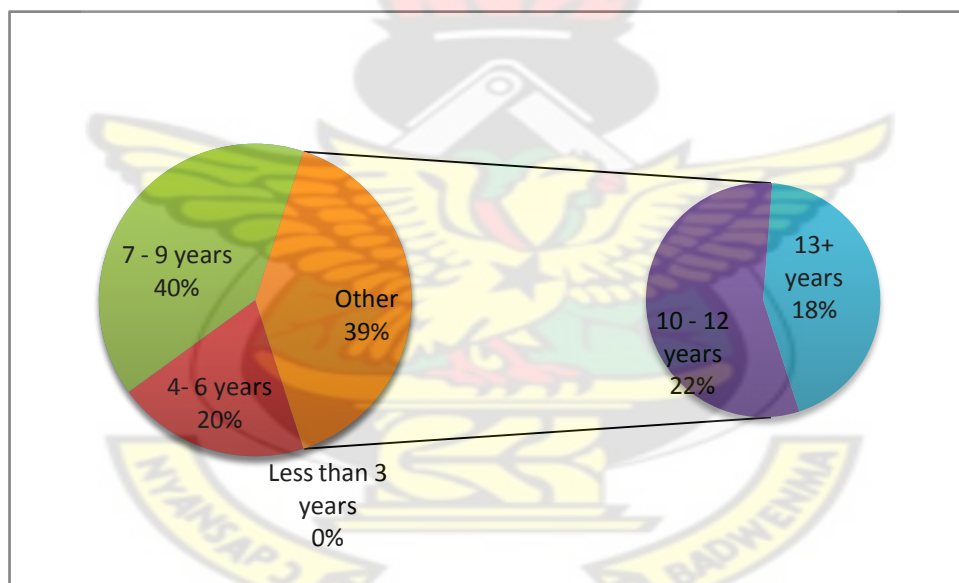
Source: Field Survey, December 2011

4.5.4 First financing request

There was an overwhelming (100%) response to the fact that SMEs first request for financing from the bank was 'application filled in at the branch'. Consequently, four assertions through

which SME chose the bank to request for the first time or make additional credit requests were identified. These are:

- 'That was the regular financial institution for the business'

- 'That was the only financial institution in my area'

- 'Thought other financial institutions would reject the application'

- 'Thought this financial institution would offer the best terms'

It was noticed that majority (65 percent) preferred the assertion, 'Thought this financial institution would offer the best terms' to 'This was the regular financial institution for the business', which attained 25 percent; 'Thought other financial institutions would reject the application', registering 16 percent; and 'This was the only financial institution in my area' (4 percent).

4.5.5 Types of financing

As many as six (6) types of financing were noticed as products requested by SMEs from Stanbic Bank. Overdraft registered 38 percent as the modal class; 23 percent for Trade Finance; 20 percent for business installment loans; Trade Express attained 10 percent; working capital recorded 8 percent and 3 percent for SME Current Account as illustrated by Table 4.5.5 and Figure 4.5.5 below.

Table 4.5.5: Types of Financing

Type of Financing	Count	Percent (%)
SME Current Account	1	3%
Overdraft	15	38%
Business Installment Loans	8	20%
Express Trade	4	10%
Trade Finance	9	23%
Working Capital facility	3	8%
Total	**40**	**100%**

Source: Field Survey, December 2011

Figure 4.5.5: Types of Financing
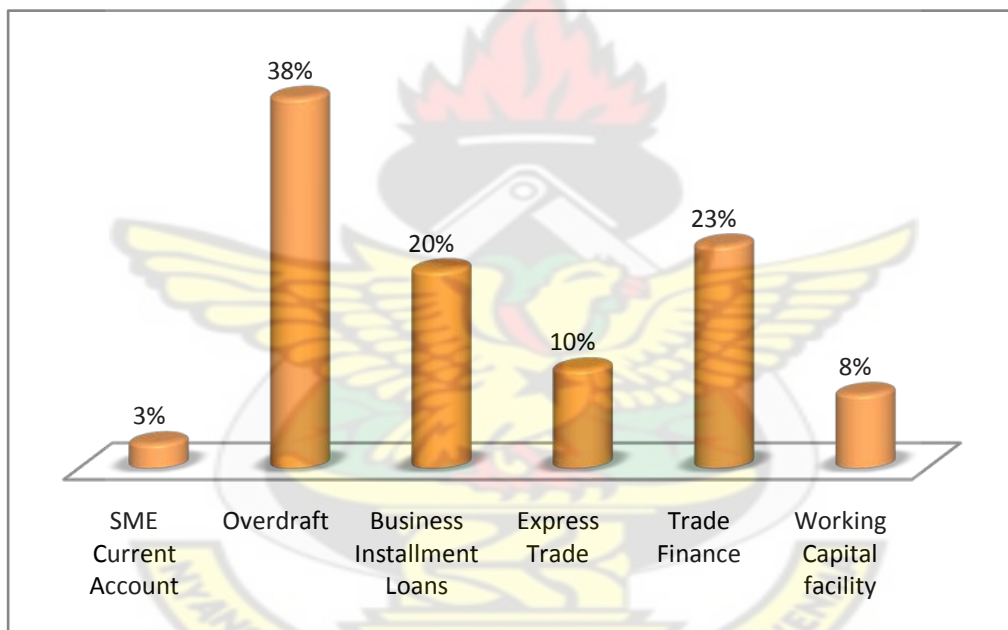
Source: Field Survey, December 2011

4.5.6 Use of financing

The study exhibited that SMEs uses the requested financial facilities for 'working/operating capital' (45 percent) and Research and Development (30 percent); 25 percent for fixed assets purchase. The details are tabulated and graphically represented.

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Table 4.5.6: Use of Financing

Usage	Count	Percent (%)
Fixed Assets purchase	10	25%
Working/Operating capital	18	45%
Research & Development	12	30%
Debt Consolidation	0	0%
Total	**40**	**100%**

Source: Field Survey, December 2011

Figure 4.5.6: Use of Financing
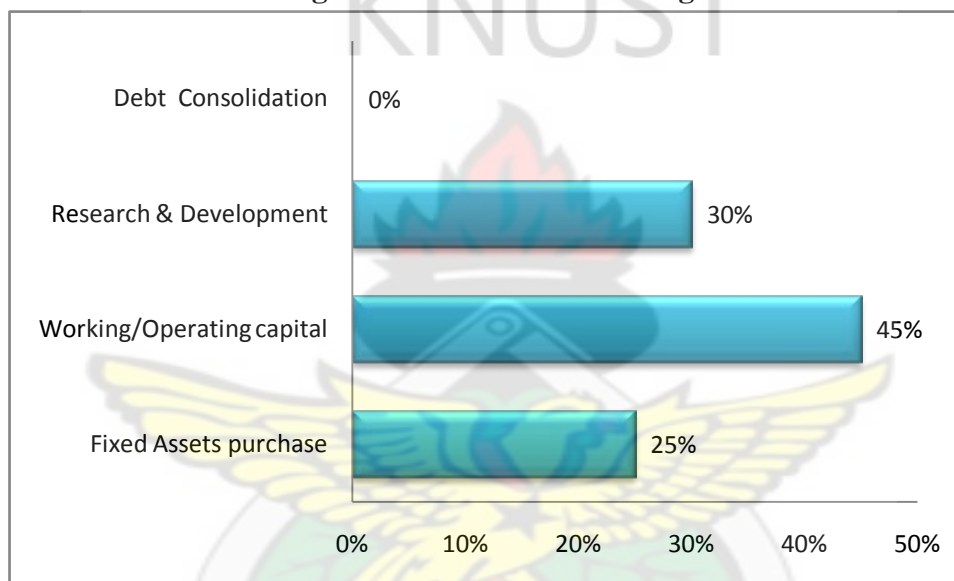
Source: Field Survey, December 2011

4.5.7 Documentation-Application process

As part of the application process the study showed that certain documentations are requested by the bank. These are: Formal application for financing, Business certificates of registration, Business financial statements, Business plan, Appraisals of assets to be financed and Cash flow projection.

Furthermore, it was detected that 73 percent of respondents have had their loan application rejected before and the remaining 27 percent had theirs accepted. The reasons assigned to the

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rejection of the loan applications or in other words major problems faced by SMEs in securing funds are: Lack of collateral/guarantees, inadequate compiled financial records and accounts, Poor credit experience or history; inexperienced management team or lack of professionalism; inadequate technologies; and limited knowledge of business opportunities.

Again, the study brought to the fore the fact that almost 80 percent of SMEs were not satisfied with the reasons and explanation put forward for the rejection of loans. Also, majority (75 percent) indicated that SMEs were not required to provide personal assets as collateral by the bank to guarantee of loans; while the remaining 25 percent affirmed that they were asked to provide collateral as loan guarantee.

4.6   Impact of financing on SME

The research identified the impact of financing SMEs as enlisted below:

- To grow and develop the business;

- To provide employment;

- To empower the private sector; and

- Contribute to the GDP of the economy of Ghana.

4.7   Assessment of SME Banking

The researcher used seven (7) variables as tools of measurement to assess Stanbic Bank SME Banking to its valuable SME customers as mentioned earlier. This is picturesquely represented by Figure 4.7.1, Figure 4.7.2 and Figure 4.6.3 below.

4.7.1 Overall Quality & Interest Rate

The overall quality of the SME Banking of Stanbic exhibited an overwhelming satisfaction of 88 percent by the business owners as illustrated by Figure 4.7.1. On the contrary, the interest rate and services fee charged met 90 percent dissatisfied response by the study.

Figure 4.7.1: Overall Quality & Interest Rate
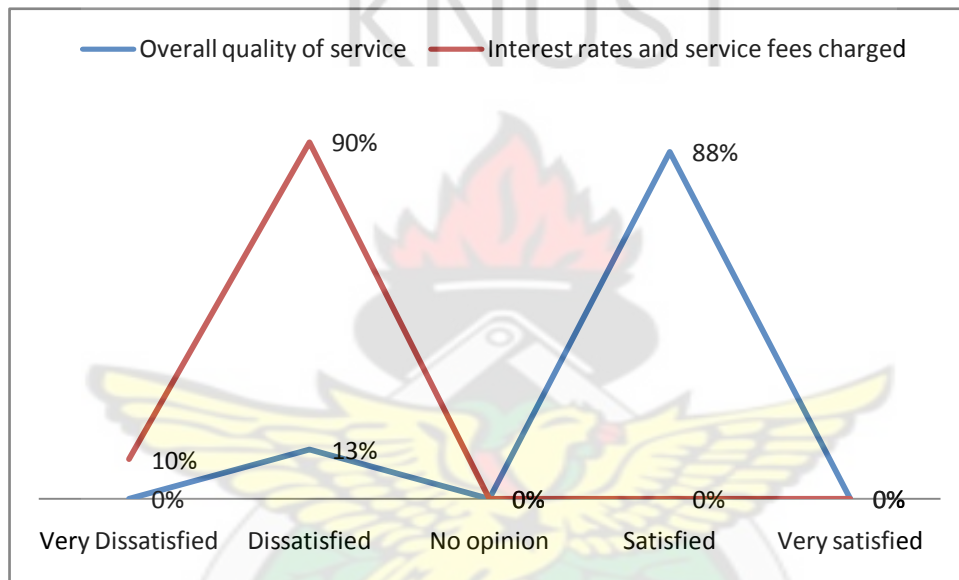
Source: Field Survey, December 2011

Table 4.8: Assessment of SME Banking

Details	Very Dissatisfied		Dissatisfied		No Opinion		Satisfied		Very Satisfied		Total	
	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)
Overall quality of service	0	0%	5	13%	0	0%	35	88%	0	0%	40	100%
Interest rates and service fees charged	0	0%	16	40%	0	0%	14	35%	10	25%	40	100%
Time to process application	0	0%	19	48%	0	0%	15	38%	6	15%	40	100%
Understanding of business needs	0	0%	11	28%	0	0%	28	70%	1	3%	40	100%
Convenience and accessibility	0	0%	19	48%	0	0%	21	53%	0	0%	40	100%
Relation with account manager	0	0%	10	25%	0	0%	27	68%	3	8%	40	100%
Documentation required	0	0%	15	38%	0	0%	18	45%	7	18%	40	100%

Source: Field Survey, December 2011

4.8.1 Process time/Understanding business needs

The time to process application of financing was dissatisfied by customers with a 48 percent response; albeit, 38 percent were satisfied and 15 percent very satisfied. Also, on the issue of understanding business needs, the study discovered that 73 percent respondents were collectively satisfied as shown by Figure 4.8.2 below.

Figure 4.8.1   Process Time/Understanding Business Needs
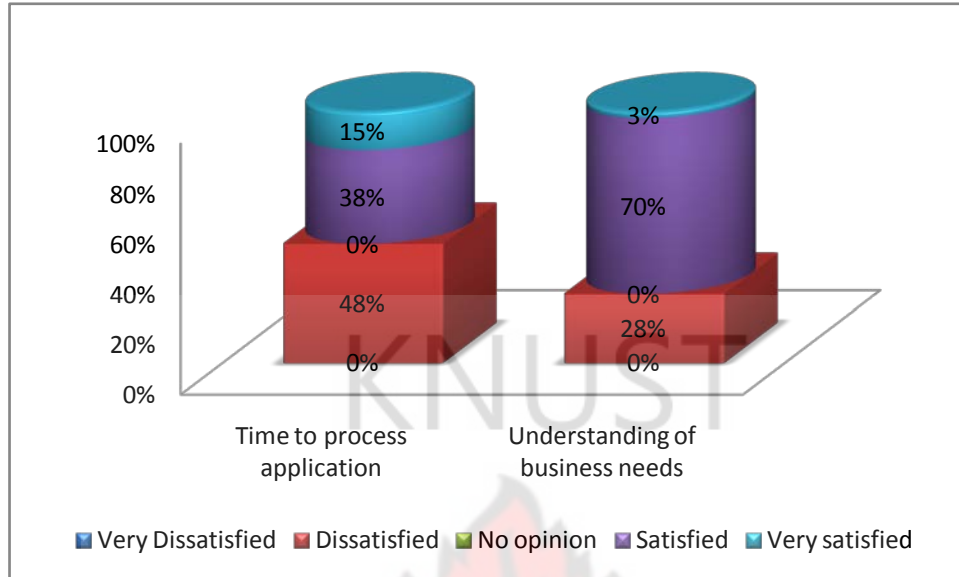
Source: Field Survey, December 2011

4.8.2   Convenience and Accessibility/Account Manager relationship/Documentation

The study showed that 52.5 percent were satisfied with the convenience and accessibility of SME financing, though, 47.5 percent were dissatisfied. There was cumulative 75 percent satisfaction with the relationship SME account manager and the SME owners and managers alike. For required documentation, the study indicated that collective 62.5 percent satisfied as detailed in Figure 4.8.3:

Figure 4.8.2: Convenience and Accessibility/Account Manager Relationship
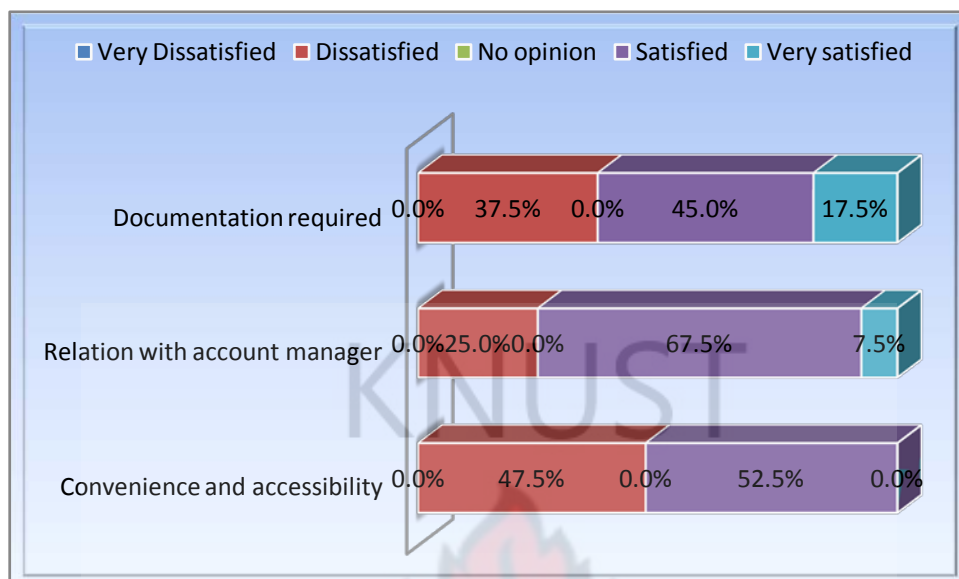
Source: Field Survey, December 2011

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1   Introduction

It is generally held that accessibility to credit is one of the important ingredients of successful developing SMEs. Access to adequate finance is a major component of successful SMEs in Ghana. The availability and good management therefore of finance is critical for the survival of any business. Thus financial needs of SMEs are urgent and inadequately served to require special financing programmes especially from the financial sectors which grants credit to a large scale enterprises easily than small and medium enterprises. Considering the importance and the benefits to be derived by a well developed SME industries in Ghana, one would have thought that every effort must be made to achieving maximum performance of its sector but unfortunately numerous problems hinder the achievement of these roles, hence, the need for improvement on the short falls in financing SMEs, though difficult as it is considering the Ghanaian circumstances is paramount.

The main objective of the study is to evaluate the challenges and the extent of financing of SMEs within the Ashanti Region of Ghana, taking cognizance of the role and contributions of Stanbic Bank Ghana Limited; specifically looking at how to identify the main sources of finance for SMEs and assess their effectiveness on business in their respective industry; to determine the positive impact of financing on the business development of SMEs in Ashanti Region; and to verify the characteristics that influences the financing of SMEs by Stanbic Bank among others.

Adopting the non-probability sampling method of random sampling, specifically the purposive sampling technique a sample size of fifty (50), comprising ten (10) staff (representing 20%) and forty (40) customers (representing 80%) who are basically SME managers and owners of the targeted population was selected; an overall ratio of 1:0.8 with regard to male and female distribution in terms of gender representation was also discovered.

5.2 Summary of Findings

SME Banking Period

The study showed that all the staff respondents have been on the SME Banking between the period of less than 2 years and four (4) years; majority having been with the Unit for three (3) years period.

Financial Services offered to SME customers

The study identified five main financial services rendered to SMEs, as in Overdraft, Trade Credit, SME Banking, Cash Management, and Business Advice. It was discovered that the financial services mostly offered to SME managers and owners by Stanbic Bank, Harper Road Branch, Adum were Business Advice and SME Banking.

Relationship ratings with SME

The research indicated that the relationship between the bankers and their respective SMEs is generally very good.

Conditions for extending credit facilities

The study identified six major conditions or criteria considered when the bank is extending credit to SME customers; which are 'years of existence', 'past and projected cash flow', 'credit history', ' lines of business', 'collateral' and business location.

Out of all the aforementioned criteria Stanbic Bank, Adum branch uses as benchmark for assessing the credibility of SMEs, credit history.

Major challenges of SME Banking

Three (3) major challenges (management, high default rate and monitoring) that militate against the SME Banking Unit of Stanbic Bank, Harper Road, Adum branch were identified.

Major SMEs financed

The five (5) major SMEs that Stanbic Bank, Adum branch has single-handedly extended assistance from their respective start-up stage to the current state, namely, Ress Motors; Ekoba Gyasi co Ltd.; Cicero Hotel; Jobost Enterprise and Miklin Hotel. Apart from the provision of financial assistance to the SMEs, the bank rendered services which could generally be classified as 'business and financial consultancy' and 'customer relationship management'

Main sector of SME activity

Six main industry from which SME financed by Stanbic are operating from were noticed by the researcher. These are Food processing, bakery, wood products, furniture works, metal works and machinery works; with the Food processing sector being the most patronized sector. The research showed that 50 percent of SMEs registered their firms with the Registrar General and majority did so as sole proprietor, while Private Ltd and Private partnership are in the minority.

Period of existence of SME and doing business with the bank

Majority have been operating between the period of 6 and 10 years in their respective sectors. The study indicated that all the respondents have been doing business with Stanbic Bank for more than 4 years; but majority had been with the bank for a period of 7 to 9 years.

Types of financing

As many as six (6) types of financing were noticed as products requested by SMEs from Stanbic Bank with Overdraft being most offered.

Use of financing

The SMEs uses the requested financial facilities for 'working/operating capital' and Research and Development. Several SME s have had their loan application rejected before and the reasons assigned to the rejection of the loan applications or in other words major problems faced by SMEs in securing funds are: Lack of collateral/guarantees, Inadequate compiled financial records and accounts, Poor credit experience or history; Inexperienced management team or lack of professionalism; Inadequate technologies; and Limited knowledge of business opportunities. SMEs were not satisfied with the reasons and explanation put forward for the rejection of loans; and that SMEs were not required to provide personal assets as collateral by the bank to guarantee of loans.

5.3   Conclusion

In conclusion it could be deduced that Stanbic probably by policy does not permit an official stay on one schedule for more than four years. The impact of financing SMEs is 1) To grow and develop the business; 2) To provide employment; 3) To empower the private sector; and 4) Contribute to the GDP of the economy of Ghana. The overall quality of the SME Banking of Stanbic Bank exhibited an overwhelming satisfaction by the business owners; and was dissatisfied with the interest rate and services fee charged. SMEs were dissatisfied with the process of application of financing but were satisfied with the bank exhibiting understanding to their business needs. They were satisfied with the convenience and accessibility of SME financing and there was satisfaction with the relationship between SME account manager and the SME owners.

5.4   Recommendation

In view of the findings of the research the following recommendations are made in order to sustain the SME to grow into much bigger industries in the near future.

SME Banks

It is not enough to have an SME Banking Unit but to ensure that management of the bank identifies the constraints of the SMEs on one-on-one basis and put in strategies to surmount not only financial challenges but technical as well. Also SMEs are advised to be shareholders of the banks so as to push for the course of SMEs.

Common Fund

It is also recommended that a special common fund should be constituted for the SMEs by government. The entrepreneurs of the enterprise are expected to contribute into the fund to be managed by an independent body. Such fund could be a revolving source of flexible credit facility for them.

SME National Policy

Government should take the lead in financing SME, if it believes that over 65% of Ghana's GDP is contributed by the SMEs which are with the private sector if it wants the saying that the private sector is the engine of growth and not one of that political rhetoric. A national policy for SME including financing strategies should be formulated, implemented and monitored. It is expected that the government should provide resources to create an incentive scheme for financial institutions to make flexible loans available to SMEs in Ghana.

The government should also make available enough loanable funds to the institutions set up to help finance the small – scale industries. Again the government should take bold initiative to introduce more financial schemes into the system with appropriate policy objectives.

Insurance Guarantees

The insurance companies should be actively involved in SME financing by providing credit guarantee for any credit delivery by the formal institutions. The insurance companies must have a sense of partnership with the banks and SMEs in areas of credit insurance and guarantee facilities.

Financial Management Education

Educational workshops and training should be organized by the bank for the SME operators to ensure efficient and effective management of financial resources. Again lack of knowledge by most industrialists on the activities and requirements of the established institution set up to help finance SME can be eliminated through such education.

5.5   Suggestion for Further Research

The study is a case study of one particular bank, however, every aspect of SME financing could not be studied let alone taking some of the core variables of the SME industry and subjecting them to a more analytical study to determine the extent to which they can withstand competition using quantitative methods. As a result this other appropriate variables such as profit of the SMEs and viability should be taken into consideration to determine the exact effect of the challenges they face. A further study on this regard would be appropriate.

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QUESTIONNAIRE FOR STAFF

THE CHALLENGES OF FINANCING SMEs IN THE ASHANTI REGION: A CASE STUDY OF STANBIC BANK (GHANA) LIMITED, KUMASI.

This is a research being conducted in partial fulfillment of the requirement for the award of masters in business administration (MBA). Respondents are assured of confidentiality and anonymity of the information they provide. They are further assured that any information they provide is purely for academic purposes.

1 .How long have you been in SME banking?

   i.   Less than 2 years   [ ]

   ii.   3 years   [ ]

   iii. 4 years   [ ]

   iv.   5 years   [ ]

   v.   Over 5 years.   [ ]

2. Which financial services do you offer your SME customers?

   i.   Overdraft   [ ]

   ii.   Trade credit   [ ]

   iii. SME banking   [ ]

   iv.   Cash management   [ ]

   v.   Business advice   [ ]

   vi.   Others (specify)…………………………………

3. How is your relationship with your SMEs?

i.   Good   [ ]

ii. Poor   [ ]

iii. Very good   [ ]

iv. Excellent   [ ]

4. What conditions do you consider when extending credit to customers who are SMEs

i .Years in existence   [ ]

ii .Past and projected cash flows [ ]

iii. Credit history   [ ]

iv. Line of business   [ ]

v. Collateral   [ ]

iv. Business location   [ ]

5. What has been the major challenge for your SMEs banking unit?

i.   Management   [ ]

ii. High default rate   [ ]

iii. Monitoring   [ ]

iv. Other(specify)   [ ]

6. Provide the names of at least five major SMEs that your bank has single-handedly extended assistance from its start-up stage to its current state.

1……………………………………….

2…………………………………………..

3…………………………………………..

4………………………………………….

5………………………………………….

7. Do you have a client SME in the Ghana Club 100? If yes please name them.

8. Apart from the provision of financial assistance to the SMEs, what other service do you render to them?

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

…………………………………………………………………………………………….

9. What recommendations would you like give which you believe would be a panacea to surmount the financing challenges facing SMEs.

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

Thank you for your time

APPENDIX 2

BUSINESS OWNERS QUESTIONNAIRE

THE CHALLENGES OF FINANCING SMEs IN THE ASHANTI REGION: A CASE STUDY OF STANBIC BANK (GHANA), LIMITED, KUMASI

This is a research being conducted in partial fulfillment of the requirement for the award of masters in business administration (MBA). Respondents are assured of confidentiality and anonymity of the information they provide. They are further assured that any information they provide is purely for academic purposes.

Instructions: Please kindly tick in the boxes provided or write in the spaces provided your responses

1. Identify the sector that represents the main activity of your business

Food processing industry [ ]   Bakery industry [ ]   Wood products industry [ ]

Furniture works industry [ ]   Metal works industry [ ] Machinery works industry [ ]

2. Have you registered your business? Yes [ ]   No [ ]

3. If your answer to question 2 is "yes," what is the legal status of your business? (Check one only)

Private limited liability companies [ ] Sole proprietorship [ ] Private Partnership [ ]

4. How old is your firm?

2 years or less [ ]   3 and 5 years [ ] 6 and 10 years [ ] 11 years and above [ ]

5. For how long have your firm transacted business with Stanbic Bank?

3 years or less [ ]   4 - 6 years [ ] 7 - 9 years [ ] 10 -12 years [ ]

13 years and above [ ]

6. Do you have a designated account manager assigned to manage your firm's banking relationship?

    Yes [ ]   No [ ]

7. How did the firm first request a financing from Stanbic Bank (Ghana) Limited?

    [ ]   Application filled in at branch

    [ ]   Application made by phone

    [ ]   Application over the internet (include electronic mail and website)

    [ ]   Others (please specify)……………………………………..

8. Why did the firm choose Standard Chartered Bank (Ghana) Limited for request or additional credit?

    [ ]   This was the regular financial institution for the business

    [ ]   This was the only financial institution in my area

    [ ]   Thought other financial institutions would reject the application

    [ ]   Thought this financial institution would offer the best terms

    [ ]   Other   reasons   (please specify)………………………………………………………….

9. What type of product/financing did the business request from Stanbic Bank (Ghana) Limited?

    SME current account   [ ]

Overdrafts   [ ]

Business Installment Loans   [ ]

Express Trade   [ ]

Trade Finance   [ ]

Working Capital facility   [ ]

Others (please specify) …………………………………

10. How did the firm used the financing that was requested from Stanbic Bank Ghana Limited?

To purchase fixed assets   [ ]

Working capital/operating capital   [ ]

Research and Development   [ ]

Debt Consolidation   [ ]

Others (please specify)…………………………………………………………………

11. What documents were requested by Stanbic Bank as part of the application process?

Formal application for financing   [ ]

Business certificates of registration   [ ]

Business financial statements   [ ]

Business plan   [ ]

Personal financial statements   [ ]

Appraisals of assets to be financed [ ]

Cash flow projection   [ ]

Other documentation (please specify)…………………….

No documentation   [ ]

12. Have you ever had your application rejected before?

Yes   [ ]   No   [ ]

13. If you answered "yes" to question 13, what are the major problems faced by SMEs in securing funds?

Lack of collateral/guarantees   [ ]

Inadequate compiled financial records and accounts   [ ]

Poor credit experience or history   [ ]

Inexperienced management team or lack of professionalism   [ ]

Inadequate technologies   [ ]

Low rate of return on capital   [ ]

Limited knowledge of business opportunities   [ ]

Other reasons, (please specify)…………………………………..

14. Were you satisfied with the explanation above?

Yes [ ]   No [ ]   Don't know [ ]

15. Are you required to provide personal assets as collateral by Stanbic Bank to guarantee the granting of loans?   Yes [ ]   No [ ]   Don't know [ ]

16. Are business owners required to provide their personal assets as collateral by Stanbic Bank to guarantee the granting of loans?

Yes [ ]   No [ ]   I refuse to answer [ ]   Don't know [ ]

17. What has been the impact of the financing/products received from Stanbic Bank (Ghana) Limited on your business?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

…………………………………………………………………………………

18. On a scale of 1 to 5, where "1" stands for "very dissatisfied" and "7" stands for "very satisfied," how would you rate your level of satisfaction with regard to questions 17 to 23:

1-Very dissatisfied, 2-dissatisfied, 3-No Opinion, 4-satisfied, 5-Very satisfied

                                                    1   2   3   4   5

17. Overall quality of service   (......)

18. Interest rates and service fees charged   (......)

19. Time to process application   (......)

20. Understanding of your business needs   (......)

21. Convenience and accessibility   (......)

22. Relation with account manager   (......)

23. Documentation required   (......)

24. Please tick your age group

    Less than 20years   [ ]

    21-30years   [ ]

    31-40years   [ ]

    41-50years   [ ]

    51-60years   [ ]

Above 60years   [ ]

25. Gender: Male [ ]   Female [ ]

26. What is the highest level of education that you have attained?

GCE Ordinary/Advanced/SSSCE   [ ]

Higher National Diploma (HND)   [ ]

Bachelor Degree   [ ]

Master Degree   [ ]

27. Did you create or participated in the creation of this enterprise? Yes [ ]   No [ ]

28. Is the main owner also the manager of the enterprise?   Yes [ ]   No [ ]

29. How many years of experience do you have in managing **this** firm?

Less than 5years   [ ]

Between 5years and 10years [ ]

More than 10years   [ ]

Thank you for your time

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